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GNW - Q1 2012 Genworth Financial, Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Georgette Nicholas *Genworth Financial, Inc. - SVP of IR*

Marty Klein *Genworth Financial, Inc. - Acting CEO*

Jerome Upton *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

Kevin Schneider *Genworth Financial, Inc. - President and CEO, U.S. Mortgage Insurance*

Pat Kelleher *Genworth Financial, Inc. - President and CEO, Insurance and Wealth Management*

CONFERENCE CALL PARTICIPANTS

Andrew Kligerman *UBS - Analyst*

Geoffrey Dunn *Dowling & Partners Securities - Analyst*

Seth Weiss *BofA Merrill Lynch - Analyst*

Anand Krishnan *Fore Research - Analyst*

Frank Donnelly *Dalton Partners - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Genworth Financial's first-quarter 2012 earnings conference call. My name is Huey 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 towards the end of the conference call. (Operator Instructions). Also we ask that you refrain from using cell phones, speakerphones, or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to Georgette Nicholas, Senior Vice President of Investor Relations. Ms. Nicholas, you may proceed.

Georgette Nicholas - *Genworth Financial, Inc. - SVP of IR*

Thank you, operator. Good morning and thank you for joining us for Genworth's first-quarter earnings call. Our press release and financial supplement were released last evening. Additional information regarding U.S. Mortgage Insurance and investments was posted to our website concurrent with our release. Additional information on Australia Mortgage Insurance was posted to our website earlier this morning.

Today you will hear from two of our business leaders starting with Marty Klein, our acting Chief Executive Officer, followed by Jerome Upton, our Global Mortgage Insurance Chief Financial Officer.

Following our prepared comments, we will open a call up for a question-and-answer period. In addition to our speakers, Pat Kelleher, Executive Vice President and Chief Executive Officer of our Insurance and Wealth Management Division; Kevin Schneider, President and CEO of our Global Mortgage Insurance segment; Dan Sheehan, Chief Investment Officer; and Buck Stinson, President, Insurance Products for our U.S. life Insurance segment, will be available to take questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call this morning may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary note regarding forward-looking statements in our earnings release and the risk factors section of our most recent annual report on Form 10-K filed with the SEC in February 2012.

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

Finally, when we talk about International Protection and International Mortgage Insurance segment results, please note that all percentage changes exclude the impact of foreign exchange.

Now let me turn the call over to Marty Klein.

Marty Klein - *Genworth Financial, Inc. - Acting CEO*

Thanks, Georgette, and good morning. Today I will provide an overview of the business and capital results in the first quarter. But first, I want to acknowledge and thank Mike Fraizer for his contributions to the Company over the years from its early days at GE through the IPO in 2004 and the recent financial crisis.

Under Mike's tenure as CEO, he has nurtured a commitment for making a difference for the people who rely on us most, our customers, policyholders, employees, communities, and industry. This has helped set a strong foundation to build from. Genworth has established strong competitive positions in our leadership lines, loyal customers and distributors, and a very talented and dedicated group of employees across the Company.

With this transition, we will be very focused on executing the actions needed to rebuild value for shareholders as well as bondholders. We will continue to meet the needs of our customers while we improve the performance of our businesses, maintain strong liquidity, and generate and manage capital. I look forward to working with the Board and with our team to manage through this transition.

Now turning to results, the first quarter saw good progress in U.S. life Insurance and U.S. Mortgage Insurance, stable performance in Canada as well as our investment portfolio, but very disappointing results in Australia, which resulted in delaying the timing of our planned minority IPO. Unfortunately, it overshadows progress we have made in other areas. Again with the Global Mortgage Insurance division where the reported loss on the quarter was $36 million compared with net operating income of $16 million from the prior year.

Let me give some perspectives on each of the mortgage platforms. In Australia, the operating loss was $21 million. The results reflected a $53 million after-tax impact from a reserve strengthening in Australia. This was driven by the combination of accelerated processing of delinquencies in our pipeline from 2011 through foreclosure to claim along with higher current and anticipated severity that we identified as we went deeper in individual claim cases during March and updated estimates for property price declines in certain submarkets, particularly in Queensland.

The delinquencies we are dealing with are concentrated from geographic, vintage year, and borrower profile standpoints. They are in Queensland in the 2007, 2008 vintages and with small business owners and self-employed borrowers. Jerome will be talking in much more detail about the trends and business results in Australia in just a few minutes.

Before I move on, I would like to discuss the frustration investors have regarding the Australia MI development. I appreciate your frustration and as part of our leadership transition, we will actively review and seek to improve our processes to avoid such frustration in the future.

Turning now to Canada, operating earnings were $37 million for the quarter, down from $51 million in the prior year. Unemployment is trending lower and home prices are stable sequentially. In the quarter, the business experienced lower earned premiums as the larger 2007 and 2008 books of business continued to season. The loss ratio decreased 2 points sequentially to 38% as overall delinquencies were down 5% from the prior quarter. I would like to note that we maintain strong capital positions in both Australia and Canada.

The operating loss in other countries in the International Mortgage segment was $9 million from losses driven by the European economic environment primarily in Ireland.

Moving to U.S. MI, results improved in the quarter to a net operating loss of $43 million from a net operating loss of $96 million in the prior quarter and $83 million in the prior year. Flow NIW increased 50% over the prior year as overall private mortgage insurance penetration improved but was down 6% sequentially, reflecting competitor pricing pressure on our market share in certain channels.

Our estimated market share remains flat at about 14% as we maintain our pricing and underwriting position. We continue to monitor the impact of competitor pricing on our market share.

Our total flow delinquencies went down 11% from the prior year with new delinquencies down both year-over-year and sequentially, reflecting the continued burn through of the 2005 through 2008 book. Redefaults on modifications continued as expected.

Loss mitigation savings in the quarter increased to $158 million as claims mitigation benefits offset a 5% decline in workouts as HAMP modifications wind down. Our risk to capital in GEMICO was relatively stable, up about 0.5 points to 33.4 to 1 in the quarter. Genworth Residential Mortgage Assurance Corporation or GRMAC, which is a subsidiary of GEMICO, had capital increase modestly to approximately $78 million with a risk to capital ratio of 2.4 to 1, giving it about one year of new business capacity across 50 states depending on production levels and requiring GSE approval.

Shifting for a minute from quarterly results, I want to discuss some exciting organizational moves in our Global MI division. As you know, we officially re-segmented our businesses around the needs we serve into three divisions -- Global Mortgage Insurance, Insurance and Wealth Management, led by Pat Kelleher, and Corporate and Runoff. Now we're taking the next natural step in our MI businesses to reflect this alignment.

So as you saw in a separate press release, I'm very pleased to announce that Kevin Schneider will become President and CEO of the Global Mortgage Insurance Division, bringing his experience and depth to the entire division. Rohit Gupta, who has had a variety of roles in U.S. MI and most recently served as Chief Commercial Officer over product, pricing, marketing and sales, will take over as President of U.S. MI.

Let's turn back to results and discuss the Insurance and Wealth Management Division with reported operating earnings of $81 million, down from $127 million in the prior year. These results reflect our first life block sale transaction, which generated $170 million of statutory capital benefit and which generated an associated after-tax GAAP net loss of $41 million. Excluding life block sale transaction, earnings in the quarter were $122 million.

Life insurance earnings were $47 million for the quarter excluding the life block sale transaction loss, which is up from $42 million in the prior year. Term UL and other universal life sales were flat compared to the fourth quarter. We expect sales to moderate going forward as we make further targeted changes to manage sales mix and volume in order to manage capital. Finally, we continue to use reinsurance and new business to manage capital effectively.

Long-term care earnings were $35 million for the quarter. Overall results were consistent with the prior year, with lower mortality being offset by higher premiums and stable investment yields, which were helped in part due to our hedging program.

We had two reserve items in the quarter. The first item is a $10 million favorable adjustment related to a systems conversion, which is taking place in several stages. The second item is a $7 million increase in reserves associated with an improved methodology for incurred but not reported claims that will provide a better estimate of costs and reduce quarterly fluctuations going forward.

Additionally, our previously announced premium rate increase on the majority of the older issue policies has begun to take effect. We still expect the continued impact in 2012 will add about $50 million in additional premium, of which $10 million was reflected in the first quarter and about $60 million in 2013, when fully implemented.

We continue to closely watch the performance of the older business and will assess the need for potential additional rate increases accordingly. The block of newer issued policies had a loss ratio of 52%. Finally, we reinsure about 40% of the new long-term care products to manage capital and risk.

Fixed annuities earnings were $23 million as we had a favorable adjustment for the State Guaranty Fund Assessment. Fixed annuity sales were down slightly from the fourth quarter as we continued to manage new business to meet or exceed targeted returns in a low interest rate environment.

International Protection earnings were $5 million, down from both the prior year and prior quarter. The underwriting margin decreased 7 points from both the prior year and the prior quarter to 14%. New claim registrations in Europe decreased 7% versus the prior year but increased 13% versus the prior quarter primarily driven by Southern Europe and when combined with less favorable claim reserve adjustments, drove the loss ratio up 7 points in the quarter to 23%. Total revenue with excluding foreign exchange was flat versus the prior quarter and down 17% versus the prior year.

There were several items in the quarter that we do not expect to impact this business going forward. Higher premium taxes related to a tax court ruling and lower tax benefits impacted the quarter by approximately $7 million in total. Additionally although operating expenses were down versus the prior quarter, there was a $3 million impact related to restructuring expenses and additional profit share expenses.

In light of the continued slow consumer lending environment in Europe, expense actions have been taken to mitigate these impacts.

Wealth Management earnings were $12 million for the quarter.

Turning to capital, the U.S. life Company's risk-based capital ratio topped 425%, up 20 points from year-end as we completed the first life block sale transaction. The capital benefit of this transaction was larger than initially estimated due to refined estimates of the associated tax benefits.

The unassigned statutory surplus at the end of the first quarter for the U.S. life companies is estimated to be $215 million, while the consolidated statutory earnings for the first quarter is estimated to be $280 million, in line with the statutory goals we laid out in our 2012 business goals call in February, with quarterly volatility. These goals are a high priority as we work to reestablish the regular ordinary dividend capacity of our life companies in 2013, which is important to our shareholders and our bondholders.

Finally, in the Corporate and Runoff Division, results improved over the prior year from variable annuity results driven by better market performance and favorable taxes.

Shifting to Investments, the global portfolio is performing well. Core yields were 4.6% in the quarter, which is flat to the prior year and prior quarter as we redeployed cash and saw improvements in the performance of limited partnerships.

We were happy that Dan Sheehan with 18 years of broad and deep investment experience, has taken the role as our Chief Investment Officer given Ron Jolson's departure for another position. Over the last several years, Ron worked closely with Dan and our investment team to restructure and derisk the portfolio. Ron has been a great colleague and friend and we thank him for his contributions to Genworth.

Turning next to the holding company, we maintain ample liquidity. At the end of the first quarter, the holding company held cash and liquid securities of approximately $1.4 billion, an increase of about $465 million over the prior quarter. This increase reflects approximately $230 million of temporary tax benefits related to tax tax sharing agreements with our operating companies that we expect to be paid to the operating companies later this year.

We executed a $350 million debt offering in March of this year and continued to navigate towards the long-term leverage ratio between 24% 26%. After the upcoming June debt maturity, our leverage ratio will be approximately 26%.

I would like to offer some perspectives on how we are thinking about the current cash position of the holding company. When adjusting for the temporary taxes that will be paid later this year and the upcoming $222 million June debt maturity, the holding company has about $950 million of cash and liquid securities. That balance is currently designated for our target of 2 times debt service coverage, which is about $600 million, and an additional buffer for stress scenarios that might impact the dividend sources of the holding company over the next 18 months of approximately $350 million.

After the quarter ended, we received approval from Delaware regulators for an extraordinary cash dividend from the U.S. life companies of $100 million which was paid to the holding company in April and is not part of the quarter-end numbers. We also intend to receive approximately $70 million in cash from the sale of GFIS that was completed in early April.

In close consultation with the Board, we continue to actively evaluate various approaches to rebuild shareholder value including for example share repurchases. With respect to repurchase, we have studied our cash resources and flows at the holding company and balanced them against our debt service needs and liquidity targets, taking into account the delay in the Australia IPO. The results of this analysis indicate that it is unlikely that we would commence a share repurchase program in 2012.

To conclude, while we have made headway in many of our objectives and seen improved results in some businesses, we have much work ahead. We must continue to manage statutory performance in the life companies, navigate the challenges in the European economies and their impact on our results, and actively manage and monitor experience in Australia.

I look forward to working with the Board and with our team of very talented employees to improve performance, generate and manage capital and liquidity, and rebuild the value of Genworth.

Let me now turn it over to Jerome to discuss Australia results and trends.

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

Thanks, Marty. This morning I will provide insights into our Australia Mortgage Insurance business and the first-quarter trends we observed, where both the number of claims and the average claim payment increased significantly, particularly in March, as Genworth and key lenders increased focus on default management.

I will also be discussing the results of the portfolio review that was conducted given the first-quarter trends that led to the reserve strengthening. I will conclude with some perspectives on business performance going forward.

I will be referring to the Australia MI portfolio update presentation that has been posted to our investor website.

Before I begin, please note the cautionary note with regard to forward-looking statements and the basis for presenting financial information detailed on slide 1.

As shown on slide 2, at the end of the first quarter, we had a little over $100 billion of effective risk in force with an overall portfolio delinquency rate of 0.54%.

Our risk in force is dispersed across four major regions, in line with the country's population and across several years of origination or vintages. Overall, our performance has been solid. However, we are seeing pressure in the Queensland region and the 2007 and 2008 vintages.

When you drill down one level, our business performance is particularly impacted by the Coastal Queensland area and small business and self-employed borrowers in the 2007 and 2008 vintages, with each representing approximately 6% of total risk in force. I will provide more detail on these subsegments shortly.

During late 2008 and through the first half of 2009, we strengthened guidelines and eliminated certain products which have improved performance of our most recent vintages.

Turning to slide 3, during the first quarter, we experienced higher losses primarily due to loss reserve strengthening of $82 million before taxes or $53 million after tax, which was reviewed by independent third parties. The major drivers of this strengthening were first, Coastal Queensland economic downturn; two, small-business self-employed borrowers in the '07 and '08 vintages; third, the impact of lender servicing and forbearance programs; and fourth, the number of paid claims and severity.

As you can see on slide 4, the first key driver of the reserve strengthening was the impact of the Coastal Queensland economic downturn on housing. We have identified these areas as the Far North, Sunshine Coast, and Gold Coast, which are principally tourist areas. You will observe the differentiated performance in these areas with peak to trough home price declines in double digits and even deeper declines on some of the foreclosed properties, as well as delinquency rates above the rest of Queensland and the overall portfolio.

These areas have been hit hard by depressed tourism particularly as the Australian dollar strengthened. Lower levels of consumer and retail spending and reduce housing demand driving home prices lower. This is indicated on the left of this slide as Queensland tourism has been particularly impacted through early 2011 but is showing early stages of recovery. This early stage recovery will not impact our delinquencies over the short term but should aid performance over time as economic improvement works its way into the housing market.

Turning to slide 5, with deeper home price declines and higher average loan balances in Coastal Queensland when compared to the overall portfolio, our average paid claim on these properties is significantly higher than the overall portfolio and the number of claims we paid as well as the average claim increased significantly in the first quarter of 2012 as we worked with lenders to accelerate claim processing.

As shown on slide 6, the second driver of the reserve strengthening was a small business and self-employed borrower in the 2007 and 2008 vintages. This segment is more reliant on tourism, retail, and consumer spending including rental income, where these borrowers have investment properties. The lower levels of tourism and retail spending have reduced income levels in this segment and combined with higher cost of living and mortgage payments due to higher interest rates, have created increased claims.

On the left side of this page, we have provided details on our small business and self-employed borrower risk in force and you can see the levels included in the 2007 and 2008 vintages, including Queensland and Coastal Queensland concentrations, as well as the higher delinquency rates.

The impact of underwriting guidelines changes in late 2008 and the first half of 2009 has significantly reduced risk in force for this segment and improved performance of more recent vintages.

As you can see on the right, our average claim paid in this segment tends to be higher than the overall portfolio and we have observed an increase in the number of claims paid and the average claim paid from fourth quarter to first quarter.

Now turning to slide 7, as we look forward to future claims development, we see delinquency rates for the pressured subsegments such as the 2007 and 2008 vintages and the associated small-business and self-employed borrower are stabilizing allowing for the normal first-quarter seasonal increase. Newer vintages, especially 2010 and 2011, are seasoning very well at this point.

In addition, we see an improving profile going forward in the delinquency mix. On the right, we have provided some key metrics that been produced by the extensive analysis conducted on the delinquency inventory. You will observe that Coastal Queensland accounts for 15% of the delinquent risk in force in later stage delinquency categories while reducing to 10% in earlier stage delinquencies.

Also for the 2007 and 2008 small-business and self-employed borrowers, we see a corresponding improvement from 25% to 18%. Based on the work completed, we expect severities to decline as we work our way through the later stage delinquencies to the earlier stages. Of course, future claims development will be influenced by economic and housing market conditions as well as lender servicing.

Moving to slide 8, another contributing factor was during late 2011 and into early 2012, we observed an extension of time from initial delinquency to claim payment with two key drivers impacting the cycle, lender servicing practices and forbearance programs. The normal cycle from delinquency of claim is on average approximately 13 to 15 months, which has now been extended given current circumstances to 18 to 20 months. These delays increase our claims costs.

During 2011, as delinquencies increased during the year, certain lender servicing routines fell behind which created processing delays and caused backlogs of delinquencies. In partnership with key lenders, we increased focus on default management and have seen a portion of these aged delinquencies come through in our first-quarter results.

In addition, a forbearance process sanctioned by the government has driven delays. This process allows borrowers the opportunity to submit a hardship dispute to an independent third party to assist in its ultimate resolution. Collections and foreclosure proceedings must cease until a final determination on the hardship is reached. This can further extend the time to claim payment and we are working with the government to identify areas to improve the process and reduce the cycle time.

In addition, we are actively working on servicing issues with key lenders by placing on-site resources to help accelerate decisions, advise on foreclosure strategies, and improve delinquency to claim cycle time.

As shown slide 9, in the first quarter of 2012, both the number of claims and the average claim payment increased significantly as Genworth and key lenders increased focus on default management. As you can see, this was more concentrated in March, with a significant increase in the average claim paid as many of these claims also had higher loan balances. The observed increase in average claim size in March led us to conduct a comprehensive review of our delinquency inventory.

Now turning to slide 10, as a result of the loss experience we saw emerge in the first quarter, we felt it necessary and prudent to strengthen loss reserves. Loss reserves are management's best estimate of ultimate paid claims for reported delinquencies including a provision for incurred but not recorded losses.

In the quarter, we supplemented our normal quarterly actuarial review process with an extensive loan by loan analysis of our delinquency inventory. This analysis included obtaining more up-to-date property valuations for all delinquencies with adjustments to further stress the home price in foreclosure. This analysis formed the basis of the reserve strengthening of $82 million.

It is important to note that our loss estimates assume no improvement in economic conditions and reserve adequacy may be influenced by prospective changes in economic and housing market conditions.

As you can see from the chart, the reserve adjustments were predominantly applied to the late stage delinquencies and loans currently in foreclosure, where we expect higher conversion rates to claim and higher claim severities. The limited strengthening to early stage delinquencies is supported by the changing delinquency mix profile and anticipated improving severity levels.

You can think of the reserve strengthening in two categories -- claims and late stage delinquencies. Approximately $20 million of the reserve strengthening is related to claims to be paid during the second quarter, with the residual applied to later stage delinquencies, the majority of which will be paid over the remainder of the year.

Now turning to slide 11. Going forward, we will continue to thoroughly analyze our delinquency inventory and update property valuations to assess our loss reserves. In addition, as mentioned earlier, we have on-site default management personnel at key lenders to help improve collections and optimize loss mitigation decisions with an emphasis on loan workout activity, home sale prior to foreclosure, or an acceleration to claim.

Finally, we will continue to adjust claims payments for costs outside of our master policy and carefully monitor performance for small-business and self-employed borrowers as well as Coastal Queensland.

Moving to slide 12, as part of a deeper assessment of our portfolio, we looked into other areas that could be sensitive to shifts in tourism similar to Coastal Queensland. The results of this analysis are outlined in the table to the left, highlighting that in other specific tourist areas we have much lower concentrations and lower delinquency rates.

Looking broadly at the vintage analysis on the right side of the slide, we see the underperformance of the 2007 and 2008 vintages with improving trends in more recent vintages. Overall, delinquency trends appear to be stabilizing.

Now turning to slide 13, the results for the quarter were disappointing with a reported operating loss of $21 million and a loss ratio of 154%. Stepping back from the quarterly results, our Australian Mortgage Insurance business has a history of producing strong annual results and our long-term views of this business and the market fundamentals have not changed. The revenue generation in the business is solid, with over $1 billion of unearned premium reserves and a strong investment portfolio producing investment income.

In addition, we are in the process of implementing an approximate 7% price increase in the market.

While we do expect to see elevated claim levels over the near term, we have used the current quarter loss emergence and other information to strengthen loss reserves we believe sufficient to cover these elevated claims. However, reserve adequacy will be dependent on future economic and housing market conditions and the results for the next two quarters will be key tests for these reserves.

We do expect to produce an annual profit for 2012 but our quarterly results will be volatile, with more noted improvements in the second half of the year.

Moving to slide 14, as you can see, our capital level remains strong. Our estimated regulatory capital ratio at the first quarter is 153%. The 153% level is consistent with the ratios we reported throughout 2011. Over the past 18 to 24 months in addition to building hard capital, we have significantly diversified the capital profile in Australia by raising $140 million of local Tier 2 debt and have significantly expanded our external reinsurance program both in coverage levels and the number of participating reinsurers.

As the in-force portfolio continues to season and as profits are generated going forward, we expect the Australian business to continue its strong generation of capital.

Related to our planned dividend for the year, we expect the business to generate capital levels sufficient to make the payment. However, this payment will be contingent on results for the year, approval by the Australia Board, and discussions with our regulator. The Australia dividend is less than 50% of the total International MI dividend for the year.

Turning to slide 15, we know there have been views expressed about a housing bubble in Australia by certain parties while others support the ongoing strength of the housing market. On this slide we highlight the views of both bears and bulls as well as our own. Our views are first, lending standards in Australia have remained strong, with household formation driving housing demand. On a national level, there is a shortage of housing. The outlook for the economy remains solid, although we do expect continued areas of sub-regional pressure such as the coastal areas of Queensland.

While home prices are high by historical measures, they have been supported by increased consumer purchasing power with home prices moderating since the second quarter of 2010. And while household indebtedness has increased, exposing consumers to rate shocks, the ratio of debt to disposable income has been relatively steady for several years at 150%. The majority of this debt is mortgage-related, which can be repaid over a long period of time.

In summary, we expect national home prices to be flat for 2012, allowing further digestion of historical home price increases.

In closing, we are disappointed with the quarterly performance, but our approach has been to make adjustments to put this issue behind us. Importantly, we must leverage the experience to improve our processes going forward. Within all of this, our long-term view of the Australian mortgage insurance business has not changed. The business and market fundamentals remain in place and are strong.

Now let me open the call up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Thanks a lot. A few questions. First, on Australia, you say that you expect to be profitable again in particular by the second half of 2012. Does that mean that you get back to the sort of high 40s loss ratios that you were seeing there? And how confident are you?

Second, risk to capital is 28.6 to 1 across all the U.S. MI. How confident are you that you won't need to infuse new capital into the MI entities?

Thirdly, International Protection 23% loss ratio -- the last four quarters it ranged from 15% to 17%. What is the likelihood that we can get back to 15% to 17% and when?

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

Andrew, good morning. It's Jerome Upton. With respect to your Australia question around profitability in the second half, I would just say -- I would break this down into three buckets and that is our current delinquency inventory and the mix that we have seen come through, the loss emergence in March that we saw and the approach that we took to record our reserve strengthening of $82 million to put the issue behind us with respect to what we see in the delinquency portfolio.

So we have used our best information to book that $82 million, again to put it behind us, but facts and circumstances could come through in the second and third quarter. That could call into question that reserve adequacy and we want to see two to three quarters come through to prove that out.

Number two, the pressured segments that we are seeing, the '07 and the '08 book in Coastal Queensland and Queensland in general, we see stabilizing trends there but again, we want to see the proof points come through on the second and the third quarter. And again as I -- as in my prepared remarks, we took underwriting actions particularly related to some of the pressure points we saw in '07 and '08 and you have seen the recent vintages and the new vintage performance has improved as a result of that.

So we will be profitable for the year based on our best estimates. Right now we're going to be very volatile on a quarter-by-quarter basis. I can't make the call but really we want to see the next two to three quarters and the proof come through on our reserve adjustment of $82 million and the vintage, the '07 and '08 in Coastal Queensland come through. We are seeing stability but we want to see that come through.

Marty Klein - *Genworth Financial, Inc. - Acting CEO*

Andrew, it's Marty. Let me start off on your question on U.S. MI and then I will turn it over to Kevin.

I would start out by observing that the performance we saw in the first quarter was certainly in line with our plans. I think it's in line with what we talked about on our February call and so we don't have any current plans to contribute capital to U.S. MI based on what we are seeing.

I would also kind of stepping back observe that we are certainly encouraged by seeing private equity money begin to flow into the space. They obviously have pretty high standards of returns and I think that confirms our view around the value of new business that is being written, so we are very interested to see that, quite frankly.

You know, when you think about capital, as we've talked in the past and you've heard Kevin talk about it at some length, there is really not a bright line in the sand on -- risk to capital is obviously one metric. It's easy for investors to look at, but regulators look much deeper than that -- claims paying ability, solvency, reserve levels -- and we think right now with the waivers we have got in GEMICO in 44 states along with GRMAC, which has got capital to write across 50 states, we think we're in pretty good shape.

Kevin, why don't you speak to performance a bit that we saw in the quarter?

Kevin Schneider - *Genworth Financial, Inc. - President and CEO, U.S. Mortgage Insurance*

Just to piggyback on that a bit, Andrew, in the first quarter, the metrics that we laid out for investors in our February call were operating in line with all those metrics. In fact, a little bit favorable when you get down and look at internally in terms of what our expectations were from an overall surplus standpoint.

Our penetration in the market is going up. Our NIW is basically in line with our expectations. Our reserves and our delinquency development are -- the experience we are seeing there are totally in line with the reserve provisioning we did in the past. Our loss mitigation trends are online or in fact a little bit ahead of our overall expectation going forward. We think that has been sort of a nice outcome for us.

The new delinquencies, which we said we are expecting would be down about 20% year-over-year, first quarter they are down a little bit more than that in the 23%-ish level. So the charts that we have put up on U.S. MI illustrate all those trends that I just showed and again, we are very comfortable at this point in time that we don't have a need to put anything in and we're working closely with our regulators and the GSEs on that. If things change, we will let you know but at the current time, we don't see a need for it.

Marty Klein - *Genworth Financial, Inc. - Acting CEO*

Pat, why don't you take the LPI question?

Pat Kelleher - *Genworth Financial, Inc. - President and CEO, Insurance and Wealth Management*

Sure, I guess the way that I look at this is that we reported income of $5 million for the quarter. Marty had indicated that there were several items -- taxes, restructuring costs, and one other item that are not expected to impact the business going forward, so when you adjust for that, the earnings -- you look at it at about $15 million for the quarter, which is clearly down from the $19 million in the fourth quarter and about $25 million in the first quarter of last year and that is primarily due to the loss ratio.

What I would say is that there are several markets or several countries that are I will say performing worse than the recent trends from an unemployment perspective and from an economic growth perspective and that's what impacted our results.

I would look at it as a smaller version of what we saw in 2009 with the general downturn in Europe and there what we needed to do was step back, look at our contracts, and look at our ability to reprice and take measures to improve the profitability of the business going forward. While this is a lesser impact clearly than what we saw a couple of years ago, we would take the same approach and expect to improve the underwriting results over a three- to four-quarter timeframe.

Andrew Kligerman - *UBS - Analyst*

Perfect, thanks. Very helpful.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thank you and good morning. First on Australia, kind of just a blunt question. From an oversight standpoint, is that something that needs to be revisited and revised? Is this something that should have been caught earlier or was it truly something that arose in March and corporate got it in the financial report in early April?

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

Geoff, this is Jerome. Thanks for the question. In the second half of 2011, we did see increasing delinquency levels and we did observe lender processing delays. We began to work more closely with those lenders to improve the collection and default management techniques. It did accelerate some of the older delinquencies coming through and as those came through in the first quarter, the claim paid counts did increase in January and February but it was -- the March loss emergence and the average claims size, that really gave rise to our deep dive on the delinquency inventory and the extensive review that we undertook to strengthen loss reserves of $82 million.

We will always take a look at process. We will always endeavor to improve, but it really was those claim payments in March that gave rise to the strengthening.

Marty Klein - *Genworth Financial, Inc. - Acting CEO*

Geoff, it's Marty. Let me just add that we intend to review the processes in Australia, quite frankly as well as relate frankly around the rest of our platforms. We obviously want to be in a position to see business trends developing as soon as absolutely possible, so we're going to undertake those reviews and if we can improve those processes, we will certainly do so.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

On the domestic front, I think coming into the quarter you had about $80 million of IBNR cushion and you had adverse development against at $50 million. But you've also had two quarters in a row now of positive severity developments and curtailments. Have you released that benefit relative to where severity was trending or is the net remaining IBNR cushion higher than the implied $30 million?

Kevin Schneider - *Genworth Financial, Inc. - President and CEO, U.S. Mortgage Insurance*

Geoff, I apologize but the conclusion of your question broke up a little bit when it was coming in. Let me try and imagine what you just said when you are asking this, because the call broke up from this end.

You're right, we have had the incremental $200 million of reserves that we posted in the second quarter of last year based on expected further deterioration and cure rates, it has been operating in line with our expectations over time. There's a chart we put up on the Web that shows there's about $50 million of that left after a couple of quarters. So that is in line with expectations.

On the curtailment side, we have begun to have a little bit of benefit from that curtailment experience as we have worked through all the opportunities to make sure all those -- all the questions about those claims around that curtailment and the feedback from the servicers, we had a little bit of offsetting benefit of that in the quarter. I would say there is about $15 million in the quarter.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay, so of the total curtailment benefit, you've only released effectively $15 million of that over the last two quarters?

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

$15 million in the first quarter that we had been holding up. It is not -- that is all we have done. We have not done anything reflected in our reserve on a more broad basis, if that's the implication of your question.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Great, thank you.

Operator

Seth Weiss, Bank of America.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Thanks. One quick clarification question on the life block transaction. Did this have any statutory earnings impact or was the $41 million purely a GAAP earnings hit? Thanks.

Pat Kelleher - *Genworth Financial, Inc. - President and CEO, Insurance and Wealth Management*

Thanks for the question. It's Pat. I'll take it. We completed the first life block transaction in the quarter. It was really oriented to freeing up capital from business with good mortality and persistency, but we basically had a low return due to the higher locked in reserve financing costs.

When you look at the after-tax capital benefit, a portion of it related to statutory earnings and a portion of it really related to bringing capital that was in captive securitization structures back onto the statutory balance sheet, so the capital benefit of $170 million was much larger than the statutory income benefit, which was in the neighborhood of $65 million to $70 million. Does that help?

Seth Weiss - *BofA Merrill Lynch - Analyst*

Yes, thanks.

Operator

Anand Krishnan, [Fore Research].

Anand Krishnan - *Fore Research - Analyst*

Thanks, good morning. A question again on the Australian MI unit. I guess there were a couple of other people who'd tried it different ways so I'm going to try it in a different way as well.

Looking at the supplement page 43 -- I'm looking at the delinquency rates and if you look at September '11 -- 2011, delinquency rate was 59 bps, December was 55 bps. So if you look at the delinquency rate, there was no indication that there was trouble in the unit. And obviously you guys indicate that the frequency at the foreclosure happened and severity was higher than expected.

My question is the delinquency rates that are being reported as well, is there any time lag and how much of a handle do you have when things start going south on some of these loans?

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

This is Jerome Upton and you were breaking up quite a bit there. And I'm going to -- I think I got your question but if I missed it, please come back at me and we will try again.

Our delinquency rates have improved quarter-over-quarter. The loss emergence that we saw in March was less about the delinquencies, the delinquency count, the number of delinquencies and more about the mix that was in those delinquencies. Again there were some processing delays. The aged delinquencies we began to process in the first quarter. We saw the loss emergence in March and those delinquencies as we've shown in the analysis, many of the late delinquencies have a higher mix in the areas that have given some economic pressure.

So I think that was the answer to your first question. If you could come back to me with your second question, that would be helpful because you were breaking up.

Anand Krishnan - *Fore Research - Analyst*

The second question and I have a follow-up as well, the second question was is there a time lag in capturing these delinquency rates? Do the lenders inform and do you have a handle when things start becoming delinquent to capture them quickly?

The follow-up is on the reserve addition. I understand you have added on an after-tax basis $53 million but when I look at the average paid claims obviously that went up because of the severity increase and when I look at the reserve for delinquent loan, I see the reserve coverage is only like about 55%. So I'm just trying to see if that's adequate.

Jerome Upton - *Genworth Financial, Inc. - Global Mortgage Insurance CFO*

The answer to your first question is there is a little bit of a delay in delinquency inventory reporting to us by a couple of months and one of the things that we have done around that is we are actively working with our lenders. We have on-site personnel there to give us a better perspective and insight on those delinquencies as they come through.

So we do feel like we have a handle on those delinquencies. But yes, there is a little bit of a lag. Does that help?

Operator

Frank Donnelly, Dalton Partners.

Frank Donnelly - *Dalton Partners - Analyst*

Thanks for taking my call. I just would have some comments I guess as a shareholder, I'm very disappointed that the lead director is not on the call. And if someone there could comment on the future direction, the leadership direction of the Company?

Also does anyone have any thoughts on the Company being put up for sale into other avenues for -- to enhance shareholder value?

The third thing I had was I thought I heard at the top of the conversation that we have new processes in place and then I heard that we are under review the processes. So if there could be some clarification there. Also could you give us some concrete steps -- 1, 2, 3 -- what we're doing right now to enhance shareholder value?

Marty Klein - *Genworth Financial, Inc. - Acting CEO*

It's Marty. I will take those questions. I would say that Jim Riepe, who is our lead director and was also named non-Executive Chair, Jim and the Board have been very, very actively involved for quite some time and continue to be very involved and Jim and I speak multiple times as he does with other members of management. So he is very involved but he is leaving it to the management team to handle earnings calls, which is typically the case.

With respect to sale of the Company or other strategic aspects, I would say that the most important thing we can be doing right now is to improve the performance of our businesses, which is very important to give us the flex ability to execute various strategies. So working on the statutory performance of the life business, to return ordinary dividend capacity, regular ordinary dividend capacity is very, very important. Working very actively on the turn in U.S. MI to hopefully probability next year and in managing Australia losses.

Those are all very important things because as we manage those performances, we will be in a much better position to take better actions to improve shareholder value. The Board in the meantime is very engaged on strategies which could be ultimately a number of different things but ultimately, we have to put ourselves in place by building the financial strength of the Company by improving performance.

Thank you for your question.

I'm sorry, I actually neglected to talk about your process change. You know, we are very confident in our quarterly closing process. Let me just start out with that. We are undertaking a review which will start beginning next week to make sure that our processes identify business trends as soon as absolutely possible. And if we are able to identify any of those improvements, we are certainly going to make them. We will do that in our other businesses as well. We're certainly not aware of any process breakdowns but we will take a look at those and make the improvements accordingly. Thanks.

Operator

With that, ladies and gentlemen, that does conclude our time for questions and that also concludes Genworth Financial's first-quarter earnings conference call. Thank you for your participation at this time. This will end the call.
