

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GNW - Q4 2013 Genworth Financial, Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 05, 2014 / 1:00PM GMT

OVERVIEW:

GNW reported 4Q13 net income of \$208m.



CORPORATE PARTICIPANTS

Georgette Nicholas *Genworth Holdings Inc - SVP, IR*

Tom McInerney *Genworth Holdings Inc - President, CEO*

Marty Klein *Genworth Holdings Inc - SVP, CFO*

Kevin Schneider *Genworth Holdings Inc - President & CEO of Global Mortgage Insurance*

CONFERENCE CALL PARTICIPANTS

Steven Schwartz *Raymond James & Associates - Analyst*

Sean Dargan *Macquarie Research - Analyst*

Suneet Kamath *UBS - Analyst*

Ryan Krueger *Dowling & Partners Securities - Analyst*

Brian Schinderle *BAM - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Genworth Financial fourth quarter 2013 earnings conference call. My name is Catherine, 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 this conference call. As a reminder, the conference is being recorded for replay purposes.

(Operator Instructions)

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 Holdings Inc - SVP, IR*

Thank you operator, and good morning everyone. Thank you for joining us for Genworth's fourth quarter 2013 earnings call. Our press release and financial supplement were released last evening, and this morning our fourth-quarter earnings summary presentation, along with additional information regarding our 2014 business goals, were posted to our website. We encourage you to review all these additional materials.

Today you will hear from our President and Chief Executive Officer, Tom McInerney; followed by Marty Klein, our Chief Financial Officer. Following our prepared comments, we will open the call up for a question-and-answer period.

In addition to our speakers, Kevin Schneider, President and CEO of our Global Mortgage Insurance Division; Jerome Upton, Chief Financial Officer of our Global Mortgage Insurance Division; Amy Corbin, Chief Financial Officer of our US Life Insurance Division; and Dan Sheehan, Chief Investment Officer, will be available to take your questions.

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

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



Also, when we talk about international protection and international mortgage insurance results, please note that all percentage changes exclude the impact of foreign exchange. Finally, references to statutory results are estimates for the quarter, due to the timing of the filing of the statutory statements. Now I'll turn the call over to our CEO, Tom McInerney.

Tom McInerney - *Genworth Holdings Inc - President, CEO*

Thanks Georgette, and good morning everyone. Thank you for joining us today for our fourth-quarter earnings call. Today I would like to cover three areas. First, briefly discuss my views of results for the year and quarter; second, provide an overview of some of our achievements in 2013; and then wrap up with the key priorities for 2014. I will then turn it over to Marty to provide more details on our fourth-quarter earnings and our 2014 goals.

Before I get into my main topics for today though, I want to welcome two new members of our Senior Management Team. Lori Evangel joined Genworth in early January as our Chief Risk Officer. She is off to a strong start, improving our risk management practices, and her main priority for 2014 will be to enhance our enterprise risk management system throughout Genworth and our businesses. Lori has an outstanding background, having served in senior risk management roles at AFLAC, MetLife, and MBIA.

Jim Boyle has joined Genworth as President and Chief Executive Officer of the US Life Insurance Division. Jim has over 30 years of experience in insurance and financial services, having served in several leadership positions at Manulife Financial Corporation and John Hancock Financial Services. His substantial experience and expertise will help accelerate the turnaround of our US Life Insurance Division. We chose Jim as the new CEO of our US Life Insurance Division primarily because of experience in leading companies through transformations, and positioning them for growth.

Now let's turn to results for the year and the quarter. 2013 was a strong year for Genworth, as we accelerated the turnaround of our Company. As you can see from slides 2 and 3 in our 2013 earnings summary presentation, Genworth made significant progress on our objective of rebuilding shareholder value, and on our priorities to improve the operating performance of the businesses, simplify the portfolio, generate capital, and increase the financial strength and flexibility of the Company.

We made significant progress on improving business performance throughout 2013. Overall operating performance for the full year was much improved over 2012, as net income was up 72%, and then operating income was up 53%. Results in the fourth quarter of 2013 were strong, as we reported operating income of \$193 million, up 39% from the prior quarter.

Our results for the fourth quarter of 2013 and the full year were positively impacted by an improving housing market and loss profile in the United States, stable markets, and lower losses in Australia and Canada, and the initial impacts from premium rate increases on our in-force, long-term care insurance policies.

Sales in the life insurance business, while lower in 2013 than 2012, showed modest improvement in fourth quarter 2013 versus third quarter 2013, as the business is transitioning to new term and universal insurance product offerings. We expect life sales will increase over time, as we move to more permanent life insurance and hybrid product offerings.

Long-term care insurance sales were significantly lower both year-over-year and sequentially, given our changes in the retail channel, and introduction of higher-priced products in more states. We expect long-term care sales to remain low in the near term given these changes, until the new product is established in the market and we expand our distribution reach.

We also will be looking at opportunities to increase consumer awareness of long-term care needs, and over time, investments in marketing, distribution, and the Genworth brand should expand the demand for long-term care insurance products. Regarding marketing and distribution, we will be refocusing our efforts to increase the size of the long-term care market through consumer education, expansion of current distribution, and establishment of new distribution channels.

Let's turn to some of the additional achievements Genworth has made in 2013. Our US Mortgage Insurance business returned to full-year profitability for the first time since 2007. The slow but continued improvement in the US housing market, strong loss-mitigation programs, and a growing



private mortgage insurance market drove profitable growth in new insurance written, and lower losses. The 2005 to 2008 books of business continue to burn through, and the 2009 through 2013 books now represent 44% of our primary risk in force.

In long-term care insurance, we completed a very intensive, broad, and deep review of long-term care insurance business and balance sheet, and developed our three-part LTC strategy of: one, obtaining significant premium rate increases on the older generation of LTC blocks written before 2002, to bring them closer to a break-even point over time, and reduce the strain on earnings and capital; two, requesting smaller rate increases more proactively on newer blocks as needed to bring them back to original pricing assumptions; and three, introducing new products that are more tightly underwritten, with appropriately priced benefits, using more conservative assumptions.

We continue to make good progress on the premium rate increase approvals on the three older generations or series of products written from 1974 through 2001, and on one series of newer-generation policies written from 2001 through 2007. As of December 31, 2013, we have received approvals representing approximately \$195 million to \$200 million of the annual premium increases from 41 states.

As we have discussed before, we are seeing approximately 84% of our policyholders deciding to pay the approved rate increases, approximately 11% deciding to pay their current premium amounts and take reduced benefits, and 5% accepting the non-forfeiture option. All those policyholders who have paid premiums on policies will receive at least the non-forfeiture benefit. Although early, we continue to believe the high acceptance of the full rate increase illustrates the continued value of the product to these policyholders.

In September, we began filing 6% to 13% rate increases on long-term care products issued beginning in 2003 and written through 2012. Current premiums on these policies are in the range of \$800 million. As of the end of the year, we have received approvals from four states.

How we design new LTC products is a key focus for us as we move forward with our opportunity in the long-term care insurance business. At the end of November, we began filing our Privileged Choice Flex 3.0 product with a much-improved risk profile that has only marginal interest rate risk and lapse risk, and with significantly less morbidity risk, and has projected returns of over 20%. We expect this product to be launched in the first half of 2014.

We also made progress on simplifying the business portfolio to focus our resources on our core businesses. In 2013, we completed the sale of our reverse mortgage and wealth management businesses. The net proceeds of the wealth management sale have been set aside at the holding company to help cover the 2014 debt maturity due in June.

Over the course of the year, we were able to generate capital from a variety of sources. Our operating subsidiaries paid dividends to the holding company of approximately \$500 million, including the first ordinary dividend from the US life companies since 2008, a big milestone for the Company. We have improved the financial strength and flexibility of the Company by proactively addressing near-term debt maturities, developing a comprehensive capital plan for our US mortgage insurance business, and re-establishing a credit facility.

We completed two very successful debt transactions in 2013: a \$400-million financing in August that was used to redeem our \$350 million 2015 debt maturity, and another \$400-million transaction in December, in anticipation of the higher capital requirements expected to be imposed by the GSEs as a part of the anticipated revisions to their eligibility standards for qualifying mortgage insurers. As a result of the many actions we have taken to improve our financial strength and flexibility this year, the holding company is now on stable outlook with all the rating agencies, and we will work to improve the ratings over time.

Finally, I want to cover Genworth's top priorities for 2014, and put some of our priorities in context, based on what is happening in the US and other markets we operate in. You can see the key drivers, goals, and priorities for 2014 earnings in our 2014 business goals and strategic priorities presentation.

There has never been a greater need for the products of our US Life Insurance Division. There are about 10,000 people turning 65 every day, from now until 2030, and most of them will need to fund long-term care costs some time in the future. Genworth is working to design innovative products and services that could help many of those individuals solve their long-term care insurance funding challenges. Genworth is the long-term care

insurance market leader, and already offers a spectrum of long-term care insurance solutions, ranging from individual and group, to life and link benefit products, to index universal life with LTC acceleration benefit riders.

In 2014, our three key US life division priorities will be: first, continued execution of our long-term care insurance strategy as we have laid out before; second, expanding the private long-term care insurance market -- part of that includes getting the regulatory and legislative work done so we can get to a place of much more public education about the need for long-term care insurance; and third, a review of all of our life products, with an eye toward building a stronger, more competitive, more innovative stable of universal life and index universal life products, balancing sales between term and permanent life.

In our global mortgage insurance division, we have two major priorities. One, continued execution of the US Mortgage Insurance business's return to profitability. We expect significantly higher earnings for USMI in 2014 than in 2013, as the 2005 to 2008 blocks continue to burn out, and earned premiums from the 2009 to 2013 blocks account for a higher percentage of our overall US mortgage insurance portfolio. Two, execution of the initial public offering of up to 40% for Australia mortgage insurance, which allows Genworth to reallocate capital and reduce risk.

The Australia IPO is an important strategic priority, but of course the execution remains subject to market conditions, valuation considerations, including business performance in Australia, and regulatory approvals. The Australia MI business has been performing well, with improving loss experience, and is delivering solid returns and dividends.

Additionally, the Australia IPO market activity has increased over the last year. As we discussed in our third-quarter call, we continue to evaluate the dynamics of the mortgage insurance market in Australia, and our customers' appetite for mortgage insurance. We remain optimistic that these dynamics will be resolved in the short term to allow the IPO to move forward in 2014, based on the strength of our customer contracts and relationships. Timing within 2014 of the execution of the Australia IPO will depend on all of the factors discussed here.

As a reminder, our capital and liquidity plans have not and do not depend on the execution of an Australian IPO, and given the financial flexibility we have created at the holding company in 2013, we have the choice of executing the IPO when it makes the most sense for shareholders.

We feel we have made significant headway on our turnaround in 2013. While there is much more work to do, Genworth is strong and getting stronger as we focus on continuing execution of our strategic priorities, and we are well-positioned for continued improvement in 2014. We remain committed to our mission of helping families become more financially secure, self-reliant, and prepared for the future. Now I will turn the call over to Marty to talk about the fourth quarter and full-year 2013 results, and our 2014 goals in more detail.

Marty Klein - Genworth Holdings Inc - SVP, CFO

Thank you, Tom, and good morning everyone. Today I will give an overview of results for the quarter, and provide a recap of our 2013 goals, as well as some perspectives on our 2014 earnings drivers and goals. I'll be referencing our associated fourth-quarter earnings summary and 2014 business goals and priorities presentations, which were posted on our website this morning.

Let's begin with the fourth-quarter results. Starting with slides 3 and 4 of the earnings summary, we reported operating income of \$193 million for the quarter, and net income of \$208 million. Net operating income is up 20% versus the prior year, and 39% sequentially. We saw increasing benefits from the long-term care rate action, continuing strong loss performance on Australia and Canada, and a profitable quarter in USMI on lower losses. The results also reflected \$29 million of benefits related to several tax-related items.

Turning to slide 5, in global mortgage insurance, reported net operating income was \$107 million, up \$20 million from the prior quarter.

Let's cover Canada results first on slide 6, where operating earnings were \$44 million for the quarter. Unemployment in Canada at the end of December was 7.2%, up from 6.9% in the prior quarter, and there was a modest sequential increase in home prices. Premiums were down slightly from the maturing of the larger 2007 and 2008 books of business. Flow NIW in the quarter decreased 17% sequentially, and NIW from bulk transactions declined as well. Overall, NIW for the year benefited from the larger origination market compared to last year, as well as several bulk transactions. The loss ratio remains low at 22%.

Turning to slide 7, operating earnings in Australia were \$66 million. Unemployment in the country was up slightly to 5.8%, and home prices rose modestly from the prior quarter. Taxes were favorable in the quarter, but unfavorable foreign exchange impacted business by approximately \$6 million versus the prior year. Excluding the impact of foreign exchange, premiums were up from the prior year, as the larger more recent books mature, and more premium is recognized. The continued low-interest-rate environment drove growth in the origination market from the prior quarter, with flow NIW up 11%. The loss ratio for the quarter decreased by 10 points sequentially to 21%, and the full-year loss ratio of 34% is better than our expected range.

Regarding other countries in the international mortgage insurance segment, the operating loss in the quarter was \$9 million. The business executed two lender settlements in Ireland that reduced the outstanding risk in force in the country by almost half.

Moving to USMI on slide 8, the business had its third profitable quarter of 2013, with net operating income of \$6 million, and a profit of \$37 million for the full year. NIW slowed in the quarter from a seasonally smaller origination market, while we continue to see improvement in private mortgage insurance penetration.

Our total flow delinquencies fell by 26%, and new flow delinquencies dropped 21% year over year. The new, better-performing books from 2009 forward are 44% of risk in force, in line with our earlier estimates of 40% to 45%. Full-year loss mitigation savings were \$563 million, well above our full-year target of \$250 million to \$350 million, as flow modifications remained strong.

Turning to capital in the division on Page 9, the MCT in Canada was approximately 222%, compared to our minimum target of 190%, and the business continues to evaluate opportunities to optimize capital. For Australia, the prescribed capital amount, or PCA, was 148%, up from the prior quarter from continuing strong statutory income, and execution on an external reinsurance transaction. In January, the business terminated an affiliate reinsurance treaty, which should decrease the PCA going forward by about six points.

In USMI, at quarter end the risk-to-capital ratio for GMICO was approximately 19.3 to 1, improved from the prior quarter because of positive statutory earnings, \$75 million in admitted deferred taxes, and a capital contribution of \$100 million. The admission on the \$75 million of statutory deferred tax assets is a big milestone for the business, and reflects the improved performance of the business in 2013, and future earnings growth potential.

In December 2013, we completed a \$400-million senior notes offering, and used the proceeds to make capital contributions of \$300 million to Genworth Mortgage Holdings, a holding company within the USMI companies, and \$100 million to the operating company GMICO, in anticipation of higher capital requirements expected to be imposed by the GSEs. We anticipate that the \$300 million at Genworth Mortgage Holdings will be deployed to benefit GMICO after the new GSE requirements are finalized. If the \$300 million had been contributed to GMICO, its risk-to-capital ratio would have improved by approximately 4 points on December 31, 2013.

We believe the December debt offering represented the most effective approach to raise capital to help address the impending GSE requirements, and enable USMI to continue to write profitable business. We continue to maintain our goal of reducing our leverage ratio in the medium term to 20% to 22%, and the expected earnings from new business in USMI should contribute to that goal, while also increasing our ROE.

Turning to the US Life Insurance Division on slide 10, operating earnings were \$119 million, up slightly from the third quarter. Earnings in life insurance were \$56 million for the quarter, and included \$8 million of favorable items in addition to the favorable taxes.

Turning to slide 11, sales were up sequentially but down significantly year over year, as sales on our new products are not yet at levels previously seen, as our term UL product was discontinued in the fourth quarter of 2012. Mortality experience continues to be favorable to pricing. Long-term care earnings were \$42 million. The in-force rate action continues to impact earnings, benefiting results by \$34 million versus last year, and \$8 million versus the prior quarter.

Moving to slide 12, the reported loss ratio for the current quarter was approximately 68%. The adjustments we had in the current quarter impacted the loss ratio unfavorably by 2 points, while the reserve adjustments in the prior quarter impacted the loss ratio favorably by 1 point. The reserve adjustments in the prior year impacted the loss ratio unfavorably by 2 points.

At year end, we had approvals of approximately \$195 million to \$200 million against the total anticipated annual premium increase of \$250 million to \$300 million when fully implemented. We saw an incremental \$42 million of premium in 2013 from this rate action, compared to our expectation of \$20 million to \$30 million in additional premiums.

For fixed annuities on slide 13, earnings were \$21 million, above our expectations, primarily due to high limited partnership income.

Before reviewing statutory results on slide 14, I should note that we continue to work through our annual cash flow testing, and finalizing other statutory results in US life companies, so our statutory results are preliminary, and do not include any cash flow reserve testing changes. We provided significant disclosure on our long-term care reserve margins on our December investor call, and we do not anticipate significant changes from the levels described on that call from our cash flow testing results.

With that as a backdrop, the risk-based capital ratio for the US-led companies increased during the quarter to an estimated 470%. Unassigned surplus was approximately \$400 million, up from the prior quarter, primarily from restructuring of two life insurance reinsurance transactions, partially offset by the \$75 million dividend to the holding company, as well as an increase in reserves related to universal life products with secondary guarantees in our New York subsidiary. We continue to work with the New York regulator on potential future impacts, and will communicate those impacts, if any, at the appropriate time. I want to note that Genworth holds more than adequate reserves to satisfy policyholder claims.

Shifting to the corporate and other division on slide 15, the net operating loss for the quarter was \$33 million. International protection earnings were \$13 million for the quarter. The business continues to manage through a challenging environment in much of Europe, although earnings were higher this quarter because of \$10 million of favorable adjustments, including \$8 million of favorable tax items. Runoff earnings continued to benefit from favorable equity markets, and were \$19 million in the quarter.

Turning to investments on slide 16, the global portfolio core yield improved modestly to 4.55%. We continue to experience a very low level of impairments, \$3 million after tax in the quarter.

Let me now cover some topics at the holding company on slide 17. We continue to generate and maintain significant liquidity, with cash and liquid assets of approximately \$1.4 billion at the holding company, above our target of holding company cash of 1.5 times debt service, plus a buffer of another \$350 million for stress scenarios, excluding the \$485 million we were holding to address the remaining 2014 debt maturity.

After deducting that \$485 million, we hold approximately \$880 million of cash and liquid assets, modestly above our target. These numbers, of course, exclude the proceeds from our December debt offering, which were contributed to the USMI companies, as I mentioned earlier.

With the fourth quarter behind us, I now want to provide some perspective on our 2013 goals, and I'll reference our 2014 business goals and strategic priorities presentation. 2013 was an important and successful year in our turnaround. We made significant headway in our strategic objectives shown on slide 3, which Tom mentioned earlier.

Turning to slides 5 through 7, we achieved or exceeded the vast majority of our 2013 goals, in particular our goals for dividends, liquidity, and capital. We also took several other actions in our turnaround efforts, which taken together, strengthened and stabilized our Company, as shown on slide 8. We sold our wealth management business, addressed our near-term debt maturities until December of 2016, we re-established credit lines, and executed a comprehensive capital plan for USMI, enabling us to continue to write profitable new business while addressing rating industry concerns.

We made good progress in our long-term care in force rate actions, and maintained solid margins in our long-term care reserves. And with many of these actions, we have achieved stable ratings for our US life companies and the holding company. As we move into 2014, we will continue to drive improvements in business performance and financial flexibility, so that we can then transition to grow.

On slide 9, our expectations for the environment in 2014 assume a continuing slow recovery in the US economy and housing markets, continuing challenged economies in Europe, and generally stable economies and housing markets in Canada and Australia.



With that prelude, I want to provide some updated perspectives from those I provided last quarter regarding earnings drivers and results in 2014. Obviously, differences in the environment earnings drivers we are highlighting, as well as the factors summarized in the appendix to our presentation could impact our results. Our 2013 operating results of \$616 million were significantly improved from 2012, as the US housing market improved, Australia and Canada had strong loss performance, and we began to see the long-term care in-force rate action impact results.

There were also several positive macro-economic and non-operating factors that helped 2013 results that we are not counting on to benefit our 2014 earnings. Those macro-economic items include more favorable foreign exchange rates in 2013 than we would expect in 2014, and we also expect that equity markets will not be as strong in 2014 as the very positive results seen in 2013. Those two macro-economic factors benefited 2013 reported earnings by about \$40 million to \$50 million over what we would expect their impact to be in 2014. We also expect our effective tax rate to be higher in 2014, which would lower 2014 results by about \$20 million versus 2013.

As I discuss our 2014 outlook and goals, please note that the numbers do not reflect the potential IPO of our Australia mortgage insurance business. While the IPO is a strategic priority, we have not built it into our baseline capital and liquidity plans.

Let's talk about some key drivers which will impact results in 2014. Turning to slide 10, in US Life Insurance Division, we currently expect GAAP earnings to be approximately 5% to 10% higher than 2013. The growth in earnings for the division should come primarily from long-term care, as the rate actions begin to more significantly reduce the financial losses and low returns in the older book to business. We expect earnings in that business for 2014 to be much improved over 2013.

Based on the in-force rate action approvals and experience to date, we expect the rate actions to benefit earnings after tax by approximately \$120 million to \$150 million in 2014. This amount is made up of premium increases and reserve releases from reduced benefits, and the balance between these two items and their impact on earnings is based on policyholder behavior, which is hard to predict given limited experience, when the rest of our rate increases are enacted. We expect the incremental premiums from the rate action to range from \$150 million to \$175 million pre-tax in 2014. Our loss ratio expectation for long-term care is 60% to 70% in 2014.

Life insurance earnings are expected to be somewhat lower than 2013, which benefited from reserve adjustments in the third quarter, and will fluctuate with mortality experience. These expectations assume that mortality experience in 2014 will not be as favorable with the actual-to-expected mortality ratio for term in 2014 assumed to be in the low to mid 90%, compared to the approximately 88% for 2013.

Finally, fixed annuity results are expected to decline modestly from overall 2013 levels, as we expect limited partnership income and bond calls and pre-payments to decline.

We expect 2014 sales levels in long-term care to be less than 2013, but should grow from the lower sales in the fourth quarter. In life insurance, we want to be more competitive with attractive universal life and index universal life products, as we re-balance sales between permanent life and term life. In fixed annuities, we want to remain competitive while still meeting targeted return thresholds.

Let's move now to the global mortgage insurance division on slide 11. Earnings in that division should be roughly flat over 2013, depending on factors such as the tax rate and foreign exchange headwinds, along with loss performance in the various platforms. We expect earnings in USMI to be significantly better than in 2013, given the 2009 and forward books of business are expected to comprise 50% to 55% of risk in force by the end of 2014. New delinquency development is expected to decline 15% to 20%, and new insurance written grows.

In both Australia and Canada, we expect continued solid loss performance, but we expect pressure in 2014 from results in 2013, from headwinds including lower US tax benefits and lower foreign exchange rates. In Canada, we expect lower earned premiums from the seasoning of the older larger books. New insurance written is expected to be flat to modestly higher than 2013 for Canada, while Australia NIW is expected to be flat or modestly lower. Finally, we expect earnings results in other countries to be consistent with 2013 results.

Moving to businesses in our Corporate and Other division on slide 12, we expect international protection earnings to be profitable, but at very low levels, typically between zero and \$5 million per quarter, as the business works through a continued slow European economy. Finally, results in



our runoff business will depend on the strength and direction of the US equity and credit markets. Given we don't expect the equity markets in 2014 to be as strong as 2013, we anticipate runoff earnings will be lower this year.

With those perspectives on the environment and earnings for 2014, let's discuss the financial goals and strategic priorities for the businesses on slide 13. In US life insurance, one of our strategic priorities is to repatriate the long-term care business from Brookfield Life and Annuity Insurance Company, Limited, or BLAIC. We believe this repatriation is a positive, as it increases transparency, and also improves the statutory earnings profile of US life companies going forward.

Given the capital levels we continue to hold in BLAIC, with the RBC ratio at year end of approximately 400%, if we repatriated the long-term care business in BLAIC at year end 2013 using our current estimated RBC level, we would anticipate a negative impact of approximately 5 to 10 points to the US life companies' RBC ratio. This impact is slightly higher than the estimate we provided in the second quarter of 2013, due to the relatively higher RBC of the US life companies at year end. We will provide more details on impacts and timing as appropriate later this year.

We expect 2014 dividends from the division to be \$175 million to \$225 million. Net of dividends paid, we anticipate US life company unassigned surplus will increase during 2014 by approximately \$120 million to \$125 million. We anticipate holding the RBC ratio in excess of 400%, and expect the ratio to fluctuate quarterly. Shifting to the international MI segment on slide 14, dividends for the segment in 2014 are expected to be between \$150 million to \$225 million, while we target capital levels in excess of 190% for Canada, and 135% for Australia.

The minority IPO of Australia of course remains an important strategic priority, and we seek to execute the IPO in 2014, as Tom covered earlier. In Canada, the business continues to focus on capital management, in order to improve its ROE while generating capital.

For USMI on slide 15, the combined risk-to-capital ratio at the end of 2013 was 19.5 to 1, and we expect the business to operate below 20 to 1 in 2014. This target may change depending on the final GSE requirements. Additionally in the USMI segment, we expect loss mitigation savings, primarily from modifications of \$250 million to \$350 million.

As noted earlier, we believe the opportunities in the private MI market in the United States are very attractive, and we expect to adapt to the impending GSE requirements. We believe the \$400 million in proceeds from our December debt offering will largely address the GSE requirements, but we have several additional options available to us, if needed.

Against this overall expected continued improvement in Genworth earnings, as shown on slide 16, we expect to maintain our significant liquidity targets at the holding company of at least 1.5 times annual debt service expense, plus a buffer of \$350 million. We expect the leverage ratio to modestly decline to 24%.

Turning to slide 17, over the next three years, as we continue to work to improve business performance, we expect the return on equity for Genworth to improve from the current 5% to the 7% to 9% range. Long-term care should be a driver of that growth from the actions we are taking to improve results. USMI should also contribute significantly from continuing improvement in the US housing market, the continued burn-through of the older books, and the impacts of profitable new business.

We will continue to focus on improving our financial strength and flexibility. Over the next three years, we expect the leverage ratio to drop to 20% to 22%, and the minimum adjusted interest coverage ratio to exceed six times. We will also work to improve our ratings over time, with a goal of one-notch upgrades for the US life companies and the holding company, and competitive ratings in all of our businesses.

While we work to achieve these goals, we will also assess further ways to improve shareholder value, such as returning capital to shareholders. But we first must continue to drive improvements in the earnings and dividend flows in our operating businesses, and in our financial strength and flexibility. We look forward to the opportunities ahead as we complete the turnaround of Genworth. With that, let's open it up for your questions.



QUESTIONS AND ANSWERS

Operator

Thank you. At this time, we will begin the Q&A portion of the call.

(Operator Instructions)

Steven Schwartz, Raymond James and Associates.

Steven Schwartz - *Raymond James & Associates - Analyst*

Marty, you were going a little fast. Could you repeat the effect you thought that the LTC premium increase would have on earnings? I could not get that.

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

Yes. We had a lot to cover this morning --

Steven Schwartz - *Raymond James & Associates - Analyst*

Yes.

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

So I was talking pretty quickly. But we expect in 2014 for the impact on GAAP operating income after tax to be in the neighborhood of \$120 million to \$150 million. That's the combination of additional premium from the rate actions, as well as reserve releases from reduced benefits.

Steven Schwartz - *Raymond James & Associates - Analyst*

Okay, great. That was part and parcel of an entire increase in the life in the total consolidated life insurance business of 5% to 10%?

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

Yes, that's part of the overall. Exactly right.

Steven Schwartz - *Raymond James & Associates - Analyst*

All right.

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

We expect the overall division to be up 5% to 10%, really largely driven by the long-term care performance.



Steven Schwartz - *Raymond James & Associates - Analyst*

Okay, great. Then on your longer-term guidance, the ROE goal is 7% to 9%. I take it that does not include really any capital deployment, if there is capital deployment, that could be additive to those numbers?

Tom McInerney - *Genworth Holdings Inc - President, CEO*

I think Steven that those numbers do not assume the IPO of Australia, and also don't assume any significant capital management, other than what Marty covered in the 2014 drivers and estimates. Those would be the returns based on improvement in the operating performance, driven by two key areas, USMI on the mortgage side, and the long-term care premium actions on the life side.

Steven Schwartz - *Raymond James & Associates - Analyst*

Okay, great. That's all I had. Thank you.

Operator

Sean Dargan, Macquarie.

Sean Dargan - *Macquarie Research - Analyst*

Thank you. I wanted to follow up on something Marty said about the December debt offering being the most efficient way to, I think, fund potential capital needs in USMI. I can't remember offhand what the coupon was on that, but given that a competitor made extensive use of reinsurance on legacy business, including some pre-2009 business, and that competitor basically said it came at a de minimus cost, I'm just wondering what the -- how you view the trade-off between adding to your leverage versus making a more extensive use of reinsurance?

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

Sure, Sean. We did look at a lot of different potential ways to raise capital, and ultimately felt like for us -- and again, recognizing that Genworth is a different company than some others with the mix of businesses and with a different balance sheet -- we felt for us that the cheapest cost of capital, and we felt like we did have some head room, was to do a debt transaction to really fund the capital need.

We've looked at a variety of other options, obviously Australia IPO proceeds, if we would have them at the time would have been an option, but obviously we hadn't done the IPO yet. We also have to look extensively at reinsurance and continue to look at it, and we do think there is some potential there. I don't think for us it's maybe as attractive a cost of capital, but it's something we would be very interested in looking at, and have been looking at it quite closely.

Kevin Schneider - *Genworth Holdings Inc - President & CEO of Global Mortgage Insurance*

Sean, this is Kevin. Just to add to it a little bit, the \$400-million range that we raised, we think we are pretty well positioned for a variety of outcomes that could come from the GSEs. It's important I think to recognize that as these requirements are phased in over time -- and we certainly don't have clarity on them yet -- we do have the ability to continue to benefit from the utilization of part of our remaining deferred tax assets over time, so that's going to be another source of capital for us.

Our growth in earnings will be a nice positive source of capital for us. Reinsurance could always be an important tool, and one that could be used. But at the same time as we look at it today, we kind of like the earnings power of those books. At this point, we feel comfortable where we are, but we have multiple levers, as Marty said, once we finally get the ultimate outcome on those eligibility requirements.

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

I would just add we have had and continue to have a medium-term target of 20% to 22%, and we felt like we had the room to do an incremental \$400 million in December and still get to that time table over the next three years, getting 20% to 22% leverage.

Sean Dargan - *Macquarie Research - Analyst*

Okay, thanks. Then just a follow-up about Australia. I think the customer appetite for continuing use of lenders mortgage insurance was referenced. Last quarter there was some discussion about the impact of Basel II, I guess and whether the Australian banks would continue to receive capital credit for utilizing LMI on high-LTV loans. Has there been any movement or clarity around where that is going to shake out?

Kevin Schneider - *Genworth Holdings Inc - President & CEO of Global Mortgage Insurance*

Yes, Sean. Basel III isn't going to get resolved in 2014, I don't think. It's out there. The issue as you accurately characterized is it doesn't currently give explicit capital relief for the major banks or the IRB banks in the market.

As they look through and consider their own modeling response to Basel III, and we support and work with them on all that, there is some evaluation going on in the amount of lender mortgage insurance that gets used in the market. As you recall, that market -- there's really about four banks that generate the significant amount of all the originations that get done in the market. It's also the only market where we have contractual relationships with our clients.

I think the resolution that you're referring to is we are trying to shore up some of those contracts. We think that will put us in a better position as we look forward to potentially executing the IPO. We'd like to get that done in the first half of the year, as suggested by Marty. We remain very comfortable with the current momentum and the progress and the results of that business line.

Sean Dargan - *Macquarie Research - Analyst*

Great, thanks.

Operator

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Just a follow-up question to Steven's to start. In terms of the incremental earnings in long-term care from the price actions -- the \$120 million to \$150 million benefit that you expect next year, is that -- does that include what you are already receiving in terms of the benefit in 2013, or is that incremental to what you guys are getting last year?

Tom McInerney - *Genworth Holdings Inc - President, CEO*

Suneet, I think the way you should look at this, it's cumulative, because these increases get rolled in over time and continue. In 2013, the total between premium increases and the reserve benefit from reduced benefit options was around \$75 million. For 2014, our estimate is between \$120 million and \$150 million, so a significant improvement in 2014 over 2013 based on that cumulative effect, which will continue beyond 2014 going forward.



Suneet Kamath - UBS - Analyst

Got it, okay. Then just on the Australia partial IPO, I guess given some of the actions that you guys have taken in terms of the balance sheet and debt maturities risk to capital in USMI, it seems like you sort of ticked off on some of the palls on the proceeds from that deal had you done it. As we think about you perhaps doing this deal in the first half of this year as Kevin I think just suggested, what would be the priorities for use of the proceeds, and could they possibly include capital return to shareholders?

Tom McInerney - Genworth Holdings Inc - President, CEO

I think that we certainly have as a strategic priority to do the IPO in 2014 based on all the things that we've been talking about. We don't have it in our capital plan, so it gives us a luxury of deciding to execute it when we think it's best for shareholders.

In terms of use of proceeds, clearly we have an ongoing priority to reduce our leverage further, and Marty talked about that and gave you guidance on where we'd like to be. Depending on the size of the IPO, where we are overall, we'll look at other uses of proceeds, which could include capital management -- either dividends or share repurchases over time. But the priority of the use of proceeds will be to reduce leverage further.

Suneet Kamath - UBS - Analyst

Okay, got it. Then just a last numbers question. On Page 17 of your outlook presentation you talk about this minimum adjusted interest coverage ratio of six times. I just want to get a sense of where we are today in terms of that ratio. I don't know if it's something you provide, because I think it's based on moving calculation, and what it would take to get to the six times, if you are not already there?

Marty Klein - Genworth Holdings Inc - SVP, CFO

Yes. Let me field that. It's Marty. We do want to get to a minimum over the next three years of six times. We think that is consistent with getting a one-notch upgrade, which is also a goal for us in US life and for the holding company. I think we want to be -- to get to that next notch up, that measure needs to be five to say seven times, so getting six times gets us comfortably into that range.

We are right now at year end 2013 right around four, maybe just shy of four, about 3.9 times. We haven't disclosed that. We will do so, put that into some of our materials and give you a sense as to where we are. The lift in that over the next three years is going to come from a combination of really taking down 2014 debt and not increasing our debt load further, as well as our expected improvement in earnings, among some other levers that we might have.

Suneet Kamath - UBS - Analyst

Do you have a pro forma for the 2014 debt payment? Is it 3.9?

Marty Klein - Genworth Holdings Inc - SVP, CFO

Yes, not that we have disclosed.

Suneet Kamath - UBS - Analyst

Okay. All right, thanks guys.

Operator

Ryan Krueger, Dowling and Partners.

Ryan Krueger - *Dowling & Partners Securities - Analyst*

A question on the ROE goal for the US life insurance division. You mentioned that a lot of the up side was driven by improvement in long-term care. Just wondering -- in terms of the individual life business, do you think -- is there anything you can do over the next few years to help improve the ROE on the imports business there, and is anything contemplated in the outlook?

Tom McInerney - *Genworth Holdings Inc - President, CEO*

We are, Ryan, just like we did in long-term care, we are taking a full look at our individual life product line. I think that from a new product perspective, we want to continue to focus on new and innovative universal life and universal life products, balancing UL or permanent with term, so say in the range of 50/50.

We also are looking at our in-force business and all the opportunities to improve both statutory and GAAP results, and some of the transactions we did in 2013 are examples of that. I do think there are opportunities on the in force. That will be one of the priorities for Jim Boyle as he comes in to take a look at that. As you probably know, he has got a lot experience there. I think we'll do a full look at the individual life portfolio, and I am sure we can find opportunities to improve the in-force block.

Ryan Krueger - *Dowling & Partners Securities - Analyst*

All right, thanks. On the long-term care business, the remaining delta between the \$200 million of currently approved rate increases and the \$250-million to \$300-million target, how much of that relates to the nine states that you haven't got approvals from yet, and how much relates to additional increases from some states where you've already got partial approval?

Tom McInerney - *Genworth Holdings Inc - President, CEO*

Ryan, I would say to you and all of the investors you should go back to our December 4 presentation. We laid out on a slide there where we were at the end of the third quarter, which was \$155 million to \$160 million. We showed you where the incremental amounts would come for -- both from the additional states, plus going back to states where we didn't get the full amount. I think we're pretty much on track with what we laid out there, so I think the best information for you would be to go back and look at that slide in the December 4 presentation.

Ryan Krueger - *Dowling & Partners Securities - Analyst*

Okay, thanks a lot.

Operator

Brian Schinderle from BAM.

Brian Schinderle - *BAM - Analyst*

Most of my questions have been answered. I am curious on the third quarter conference call, there was some discussion with respect to the potential Australian IPO. I believe at the time you mentioned a regulatory change that was coming through in Australia that would help clear the runway



for a potential sale. I believe that there was some timing related to that, where you needed to get that done and out of the way prior to feeling better about the timing. Can you update us on that?

Kevin Schneider - *Genworth Holdings Inc - President & CEO of Global Mortgage Insurance*

Brian, this is Kevin Schneider. Just as I mentioned earlier, the key regulatory issue in the market is getting regulatory approval. There's really two -- regulatory approvals associated with doing the deal, and -- as well as additional resolution on Basel III and the amount of regulatory or capital relief that our major bank lenders will receive for our credit enhancement.

That will not be resolved in 2014. That should not lead you to believe that it'll impact our ability to do the transaction this year. It's just something that has caused the lenders to evaluate the extent of their use of lender mortgage insurance. We are on -- the lenders continue to use our product in the market. Our production levels have been relatively strong as the origination market has been strong there.

The real bigger issue is you have kind of two windows to do an IPO in Australia, and they are sort of after the reporting periods. There was one that basically ended up at -- it runs from the early fall until December, and then you have a window where things shut down, you don't have the opportunity to go to market.

The second window opens up after earnings are reported and filed down there, so you should see us focusing again on attempting to execute the transaction, given all the other market considerations that Tom and Marty both mentioned, in the first half of 2014.

Brian Schinderle - *BAM - Analyst*

Got it. One other quick one on the USMI business. There had been some discussion, possibly a couple of quarters back, thinking forward about some of the potential options for that business, including eventually looking at spinning that out, et cetera, as it returned to profitability, and as you looked at sort of all the alternatives on the table to manage the balance sheet. I'm just curious if there have been any other thoughts on that, or if you still view it as an option but further down the road, or how that would come into your thinking?

Tom McInerney - *Genworth Holdings Inc - President, CEO*

Yes. I would say in the first year I've been here I've gotten a lot of input on what to do with USMI. I will credit the senior team before I got here with resisting that pressure, because I do think what we've seen is a tremendous turn-around in USMI. I think our US Mortgage Insurance business is one of the best businesses we have in terms of what we are writing today. As you know, we have been achieving returns well in excess over cost of capital, in the mid to high teens. I think it's a great business.

We continue to look to improve it, and I think you'll see that. I think it will be a key driver for Genworth's results over the next two or three years. We'll worry later on once we get USMI to where it should be as the 2009 and 2013 and forward books become the dominant part of that book of business. But at this point, I think it's one of the best businesses that we have.

Brian Schinderle - *BAM - Analyst*

Are you seeing on the competitive side -- obviously there's been some new entrants and some renewed activity on the US business for mortgage insurance. How are you finding the competitive environment, and does that put any pressure or any expectations of pressure on margins, because of the competitive overlay?

Kevin Schneider - *Genworth Holdings Inc - President & CEO of Global Mortgage Insurance*

Yes. I'll wrap up this question, Brian, because I do think we are about running out of time here. But number one, we do feel like it's a good message to the market that there is private capital coming into this space. Mortgage insurance provided what its role throughout the crisis, and we think that'll help us even further as we try and secure all the housing finance reform and regulatory outcomes going forward.

We do have more competition. We are sort of at the level we started before we started this -- before we went through this crisis. We lost a few and we picked up a few. We don't see at this point in time that it has any significant near-term margin pressure on us. We think we have a strong value proposition as we sell against our competitors.

We think pricing is relatively stabilized in the market at this point, and hopefully folks are pricing at the appropriate levels for the risk we're taking. We're excited about the future. We feel we are going to do pretty well for ourselves in 2014, and we'll get our fair share of the business.

Marty Klein - *Genworth Holdings Inc - SVP, CFO*

It's Marty. I just want to go back for a second to the Australia IPO just to clarify some of the timing. I think that, as Kevin talked about, there are two windows, given the way the markets work there, either the first half or the second half, given the reporting cycles and so forth. So those are the two windows that we have.

As Tom had indicated, we have the luxury of doing it at the time that makes the most sense. We have to look at all the factors and do it at the time that makes sense. We would certainly hope to do it in the first half, but we'll have to see if that's achievable, or if it's better to do it in the second half, and we'll obviously provide updates as we go.

Brian Schinderle - *BAM - Analyst*

Thanks guys.

Operator

Ladies and gentlemen, I will now turn the call back over to Mr. McInerney for closing comments.

Tom McInerney - *Genworth Holdings Inc - President, CEO*

Thank you Catherine, and thanks to all of you for your time and questions today. As you know, Georgette Nicholas has been promoted to a new role as CFO of our Australia mortgage insurance business, and so she'll soon leave for Sydney. I want to take a moment and thank Georgette for all of her accomplishments as head of Investor Relations.

I know you share that sentiment, based on all the positive feedback that Marty and I receive about Georgette, David Rosenbaum, and the entire IR team. We are also delighted that Amy Corbin, who is the CFO of our US Life Insurance Division, is taking over for Georgette as head of IR. Many of you know Amy, and I'm excited to have her assume this very important role on behalf of the Company.

2013 was a year of significant improvement at Genworth, and we executed well on our turn-around strategy. As we enter 2014, I'm excited about the continued opportunity we have to execute our strategy and add shareholder value. We have a strong management team, and talented employees that have endured a lot of changes during the last few years. We remain focused on our top priorities for 2014, as we outlined today, and continue to protect families at life's moments of truth, and help families achieve and maintain the dream of home ownership.

Operator

Ladies and gentlemen, this concludes Genworth's Financial Fourth-Quarter Earnings Conference Call. Thank you for your participation. At this time, the call will end.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.