

## Business Update

*Third Quarter 2011*

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

**We're committed to rebuild value for our shareholders by sustaining the performance of our leading platforms, continuing to improve performance of our U.S. Life Insurance and U.S. Mortgage Insurance (USMI) businesses, and taking actions to optimize capital allocation.**

### Highlights of our business performance include:

- The company reported net income<sup>1</sup> of \$29 million, or \$0.06 per diluted share, compared with net income of \$83 million, or \$0.17 per diluted share, in the third quarter of 2010. Net operating income<sup>2</sup> for the third quarter of 2011 was \$104 million, or \$0.21 per diluted share, compared with net operating income of \$29 million, or \$0.06 per diluted share, in the third quarter of 2010.
- In Retirement and Protection, earnings increased 8 percent to \$120 million, compared with \$111 million in the prior year. Total segment operating earnings and revenue<sup>3</sup> increased 8 percent and 6 percent respectively, driven by life insurance and increased investment income.
- International earnings decreased 31 percent<sup>4</sup> to \$98 million, compared with \$121 million a year ago. Excluding the unfavorable Australian tax charge of \$16 million in the current quarter and the prior year lifestyle protection tax benefit of \$7 million, International earnings decreased 14 percent<sup>4</sup>, primarily driven by slowing revenues reflecting smaller market sizes, increased losses in certain regions of Canada and Australia, and higher interest expense.
- U.S. MI had a \$79 million net operating loss reflecting relatively stable delinquency aging, a seasonal increase in new delinquency development, and flat sequential cures. Total flow delinquencies decreased 11 percent from the prior year but increased 1 percent sequentially. New flow delinquencies were down 14 percent from the prior year but increased 10 percent sequentially from normal seasonal increases.

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

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

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

<sup>3</sup> Operating revenue is a non-GAAP measure that excludes net investment gains (losses). Total segment operating revenue excludes net investment losses of \$111 million and net investment gains of \$57 million for the three months ended September 30, 2011 and 2010, respectively. Total segment revenue, including net investment gains (losses), decreased three percent for the same period. See the Use of Non-GAAP Measures section of the earnings release for additional information.

<sup>4</sup> Percent change excludes the impact of foreign exchange.

## We are driving profitable growth.

### Retirement and Protection

In the U.S. Life Insurance and Wealth Management businesses, we are focused on life insurance, long-term care (LTC) insurance, life and long term care insurance-linked benefits, wealth management, and fixed annuities.

In the third quarter:

- We delivered improvement:
  - Total segment operating earnings and revenue increased 8 percent and 6 percent respectively over the third quarter of 2010.
  - Sales were up over the prior year with sales in life insurance moderating as a result of pricing actions.
  - The consolidated risk-based capital (RBC) ratio is estimated to be 365 percent.
- In the *Agent's Sales Journal 2011 Life Insurance Carrier Report Card*, the Genworth Financial companies earned top honors. Out of 53 life insurance carriers, agents placed Genworth in the top four in six of the eight survey categories: #1 Best Overall Carrier, #1 Most Preferred to Write, #2 Call Center/Telephone Support, #3 Leads and Prospecting Help, #4 Marketing Materials, and #4 Marketing and Advertising.
- We launched Privileged Choice<sup>®</sup> Flex (a product that enables customers to choose an LTC plan that best suits their lifestyle and budget), My Future, My Plan<sup>SM</sup> (a flexible product designed exclusively for AARP members), Live+Well<sup>SM</sup> (a partnership with the Mayo Clinic to bring wellness education to LTC consumers), and caregiver support services to our distribution partners, bringing a unique product and services suite to the market.
- We enhanced the Life Producer website ([genworth.com/pro](http://genworth.com/pro), an interactive tool for communicating with our producers) to deliver a better online experience, providing more detailed, easier views of producers' books of in-force policies, and simplifying requests for life insurance in-force illustrations.
- Wealth Management enjoyed its tenth straight quarter of positive net flows despite a challenging market as a result of fund offerings that are attractive in uncertain markets and investment in programs that support the advisor base. Assets under management (AUM) ended the quarter at \$24.6 billion.
- We completed the sale of our Medicare supplement business on October 1; this is the last quarter those results will be presented as part of the Retirement and Protection segment.

### International

In our International Mortgage Insurance and Lifestyle Protection businesses, we have a focused strategy and our businesses are in leadership positions in their respective markets: mortgage insurance in Canada and Australia as well as lifestyle protection insurance in Europe and select new markets.

In the third quarter:

- Lifestyle Protection pre-tax operating margin<sup>2</sup> improved approximately 100 basis points sequentially, and has improved 400 basis points year-to-date over prior year margin, from continued declines in new claim registrations as well as benefits from previously implemented price and distribution contract changes.
- Canadian operating earnings decreased 18 percent<sup>4</sup> from the prior year primarily from lower revenues, as larger in-force vintages gradually run-off, and increased losses in Alberta. The loss ratio in the quarter was up from 33 percent in the second quarter and increased five points from the prior year to 36 percent, driven by certain Alberta submarkets.
- In Australia Mortgage Insurance, flow new insurance written (NIW) was up 4 percent<sup>4</sup> sequentially and down 3 percent<sup>4</sup> year over year as the mortgage origination market showed some improvement from increased refinancing activity in the quarter; overall it remains a smaller market.

## **U.S. Mortgage Insurance**

In U.S. Mortgage Insurance (USMI), we continue to focus on loss mitigation efforts and loan modifications (helping borrowers stay in their homes) and on attractive new business with higher returns and a lower risk profile.

In the third quarter:

- Flow NIW increased 13 percent from the prior year and 42 percent sequentially, reflecting the continued shift from Federal Housing Administration (FHA) to private mortgage insurance solutions along with share reallocation from competitors exiting the market.
- Loss mitigation savings were \$168 million in the quarter and \$420 million year-to-date, with the business remaining on track to achieve the higher end of the targeted \$400 to \$500 million full-year benefit.
- Total flow delinquencies decreased 11 percent from prior year but increased 1 percent sequentially. New flow delinquencies declined approximately 14 percent from prior year but increased approximately 10 percent from the prior quarter reflecting normal seasonal development.
- We introduced value-added support for our customers: USMI has taken steps to increase underwriting productivity by almost 100 percent from April through September with 99 percent of files underwritten within 24 hours.

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

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

- We ended the quarter with \$699 million of holding company cash and highly liquid securities.
- We expect at least \$350 million in dividends from the International segment on a full year basis.
- The holding company targets maintaining cash balances of at least two times its annual debt service expenses.
- Genworth has \$222 million of debt maturities in 2012 and no debt maturities in 2013.
- Investment income declined, with net investment income of \$842 million, compared to \$881 million in the second quarter. The core yield<sup>2</sup> was unchanged sequentially at 4.7 percent.
- We continue to pursue and accelerate value-enhancing strategies to redeploy and optimize capital while maintaining appropriate risk buffers, including strategic management of new business levels and our plan to pursue a minority share IPO of our Australian Mortgage Insurance business. This move is part of a broader strategy to rebalance the business portfolio, support future growth opportunities for the Australian business with expanded access to the capital markets, maintain control positions of strategic mortgage insurance platforms in Australia and Canada, and, together with other actions, free material capital for redeployment.<sup>5</sup>

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**We deliver on our promises to help millions of people around the world secure their financial lives, families, and futures.**

In the third quarter, working with our partners:

- We paid more than \$850 million in insurance benefits, delivering protection and peace of mind to our Retirement and Protection policyholders and beneficiaries.
- We facilitated the closing of more than 7,800 mortgage loan workouts through our global homeownership assistance programs, helping borrowers stay in their homes or avoid foreclosure.
- We helped more than 35,000 people in Europe maintain regular repayments on their financial commitments through our lifestyle protection insurance program.

**We remain committed to providing information, tools, and expertise to promote financial security.**

- We partnered with Olympian Wendy Boglioli to share the results of a consumer survey about the relationship between financial soundness and physical fitness for those seeking to live a balanced life. The study also highlighted a preparedness gap between men and women when it comes to time spent on financial planning.
- We continued to share learnings from our LifeJacket<sup>SM</sup> study (research highlighting the insurance coverage gaps for most Americans and the “whys” behind those gaps) through our release: “Exposing Myths and Realities to Help Advisors Bring Consumers Back to the Table.”

**We’re working with industry partners to create programs that help bring stability to the financial system – and engaging with policymakers to help frame the implementation of legislation affecting our industry.**

- USMI continued legislative and regulatory influence to reduce the FHA’s market share. Since the FHA loan limits were decreased on October 1, USMI has seen additional upside momentum in the market.
- We hosted the General Agent Strategic Exchange – an exclusive event for our key brokerage general agency and marketing organization leaders. Through main stage sessions and interactive workshops, we showcased Genworth’s deep capabilities with our top customers and generated valuable dialogue with these leaders that will help us shape our next generation of products and services.
- Following our presentation to the Housing and Mortgage Commission (convened by the Spanish Congress) advocating for a new regulatory framework, that framework has been adopted in the manifesto of two political parties ahead of the forthcoming general election. Our proposals recommend the wider use of mortgage insurance as a means of reducing risk for lenders and enabling increased homeownership for first-time buyers.

**We’re reaching out and giving back by volunteering in the communities where we live and work.**

- As part of our commitment to creating healthy communities, we sponsored the 38<sup>th</sup> Virginia Ten Miler and Family Festival in Lynchburg, which drew the largest field in two decades.
- In July, our Putts4Charity initiative raised just under €26,000 for Barnardos, Ireland’s leading children’s charity, at the Irish Open. Since its inception, Putts4Charity has raised over €800,000 across European Tours.
- Year-to-date, over 5,000 Genworth volunteers around the world have supported more than 400 projects in our communities.

## **Genworth Quick Facts**

- Genworth Financial, Inc. (NYSE: GNW) is a publicly traded, Fortune 500® global financial security company with approximately 6,500 employees.
- Genworth serves the needs of more than 15 million customers with a presence in over 25 countries.
- With a heritage tracing back to 1871, Genworth has built an extensive family of financially strong, well-respected insurance companies and distribution partnerships around the world.

## **Executive Leadership**

### **Michael D. Fraizer**

*Chairman,  
President & Chief Executive Officer*

### **Leon E. Roday**

*Senior Vice President,  
General Counsel & Secretary*

### **Patrick B. Kelleher**

*Executive Vice President,  
President & CEO, Retirement and Protection*

### **Martin P. Klein**

*Senior Vice President,  
Chief Financial Officer*

### **Ronald P. Joelson**

*Senior Vice President,  
Chief Investment Officer*

### **Kevin D. Schneider**

*Senior Vice President,  
President & CEO, U.S. Mortgage Insurance*