29-Apr-2015

Genworth Financial, Inc. (GNW)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Genworth Financial's First Quarter 2015 Earnings Conference Call. My name is Tresia, 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. Also, we ask that you refrain from using cell phones, speaker phones, or headsets during the Q&A portion of today's call.

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

Amy Corbin
Senior Vice President, Investor Relations

Good morning, everyone, and thank you for joining Genworth's first quarter 2015 earnings call. Our press release and financial supplement were released last evening, and this morning our earnings presentation was posted to our website and will be referenced during our call. We encourage you to review all of these materials.

Today, you will hear from our President and Chief Executive Officer, Tom McInerney, followed by 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 and Dan Sheehan, Chief Investment Officer will be available to take your questions.

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During the call this morning, we may make various forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary notes regarding forward-looking statements in our earnings release and related presentations, as well as the risk factors of our most recent report on Form 10-K and our quarterly Form 10-Qs as filed with the SEC.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our financial supplement, earnings release, and investor materials, non-GAAP measures have been reconciled to GAAP where required in accordance with SEC rules. Also, when we talk about the results of our international businesses, please note that all percentage changes exclude the impact of foreign exchange. And references to statutory results are estimates due to the timing of the filing of the statutory statements.

Given the level of interest for today's call, we ask the callers limit themselves to one question and one follow-up. Should you have any questions, please re-enter the queue.

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

Thomas Joseph McInerney

President, Chief Executive Officer & Director

Thank you, Amy, and good morning, everyone. Today, I will provide an overview of the quarter's results, along with an update on our strategic review. But first, let me address the recently announced finalization of U.S. Private Mortgage Insurer Eligibility Requirements or PMIERs.

We are pleased that the guidelines are final and believe they increase the soundness of the private mortgage insurance market. The final guidelines reflect lower capital requirements than the draft guidelines would have required on the 2005 to 2008 legacy books, and we project that new business long-term ROEs will be in line with current levels in the low teens to mid teens.

For Genworth, a mix of adverse market and currency changes, primarily related to mortgage insurance Canada combined with a reduction of captive reinsurance benefits offset the reduce capital requirements and resulted in a capital need within our anticipated range of $500 million to $700 million.

We expect U.S. mortgage insurance to be one of Genworth's best performing businesses in the future, and we remain committed to being compliant with PMIERs by the effective date. Currently, we believe a mix of reinsurance and holding company cash makes the most sense to fund the capital need. The ultimate mix will depend upon final reinsurance terms and conditions and a level of excess cash at the holding company.

To date, we have made substantial progress on reinsurance, and the finalization of the guidelines paves the way for execution of the reinsurance contracts by the effective date. Our plan is to position this business to continue to increase the amount of profitable new business it writes, given the attractive ROEs, and ultimately, we expect it to return to dividend paying status in the next few years.

Now, I'd like to provide some high level remarks on the quarter, the details of which Marty will cover in a few minutes. Our first quarter operating earnings results of $156 million reflect continued positive momentum across the three primary global mortgage insurance platforms. Results for life and fixed annuities were better than expected because of favorable mortality during the quarter. Long-term care was profitable although at very low levels.

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As expected, sales within U.S. Life continue to be pressured across all product lines, reflecting the low interest rate environment, ratings impacts primarily in the financial institutions channel and previously communicated product transitions within life and long-term care. As we work through these impacts, we plan to pursue the appropriate mix of product and distribution changes in order to increase profitable new sales over time.

Turning to our long-term care in-force rate actions as shown on slide 11, we have reached an important milestone in the first quarter, as our 2012 in-force premium rate action approvals are at $255 million to $270 million, now comfortably within our target range of $250 million to $300 million of annual incremental premium by 2017. We expect another $10 million to $25 million from future approvals on these rate actions. Also, we continue to make solid progress on the rate action that we initiated in the third quarter of 2013 with 24 state approvals through quarter end.

In-force premium rate increases and benefit reductions are a critically important component of how we manage our overall long-term care business. With the 2012 rate actions now largely complete, going forward, we plan to focus on three quarterly metrics which can be used to measure progress against our expectation for additional annual incremental premiums or equivalent benefit reductions. We will track and disclose quarterly new filings submitted, filings approved and the earnings impact of implemented rate increases. Overall, we are encouraged with our first quarter results and remain focused on initiatives aimed at strengthening and improving our businesses.

With that, let me turn to our strategic review. We are currently focused on three strategic imperatives: strengthening our businesses, simplifying our portfolio and increasing financial flexibility and financial strength. Our review included a thorough evaluation of every business, its market position, competitive landscape, regulatory environment, future earnings growth and ROE potential. Balancing all these criteria, we have concluded that the U.S. and Canadian mortgage insurance businesses offer the most attractive combination of top-line growth, earnings growth and return profile of any of our businesses.

While our mortgage insurance business in Australia is also attractive with solid earnings and a strong capital position, we continue to evaluate our ownership in this business as we consider our strategic imperatives. But we also recognize there are benefits of continuing to hold a majority position.

Moving to long-term care, the prospects for this business remain challenging and complicated. We remain in this business for two primary reasons. First, maintaining a strong market presence has and will continue to significantly influence both in-force premium rate actions and needed regulatory changes, and second, our leadership position combined with a growing social need for long-term care financing options provide an attractive business opportunity. Each step in our three-part long-term care strategy was established to address the specific challenges of each generation of in-force business, and we believe it is our current best course of action to fix this business.

Based on discussions with regulators and our rate action track record, we believe we will continue to make good progress against our long-term care strategy, but it will take a number of years to move the older blocks closer to breakeven and newer blocks closer to original pricing.

With regard to new long-term care business, we believe our PC Flex 3 product will generate returns in the 15% plus range even with the more stringent severity assumptions given our recent comprehensive claim review.

Regarding our life and annuity businesses, we have solid market positions but are not currently a leader in any of the major product categories. Moreover, with our recent ratings downgrades and the intense market competition in these product lines, we expect future life and annuity sales to remain at low level.

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Additionally, the low interest rate environment and the higher financing costs related to life capital requirements given regulation such as XXX and AG 38 have hurt the operating performance and return of these businesses. Given these factors, we are currently assessing market interest and considering the merits of a sale of these businesses. Although we've made considerable progress to-date, it is too early to provide more color on this initiative.

As we discussed last quarter, we have engaged external strategic and financial advisors to help us assess our strategy and the various strategic options we might pursue. Our board and leadership team have been actively engaged with these advisors, and they've been instrumental in broadening our perspectives and helping us clarify the best path forward to achieve our end goal of positioning the company for future success.

While there will be benefits, there will also be challenges and trade-offs along the way, such as debt levels and terms, tax considerations and the views of regulators and rating agencies. In that context, we remain committed to making the best decisions for all stakeholders and continue to work with a strong sense of urgency. This will be a multi-phase process, and we will provide updates at the appropriate time.

Now, let me turn it over to Marty to cover the quarter results in more detail.

Martin P. Klein

Chief Financial Officer & Executive Vice President

Thanks, Tom. Good morning, everyone. Today, I will discuss our first quarter results as well as perspectives on some factors influencing long-term care performance going forward. As shown on slide three of the earnings summary, we reported net operating income of $156 million and net income of $154 million for the quarter. We saw solid results in most of our businesses reflecting continued strong loss ratios in our Global Mortgage Insurance Division that were partially offset by unfavorable foreign exchange and favorable mortality in U.S. Life Insurance Division.

Global Mortgage Insurance had another good quarter as shown on slide four, reporting net operating income of $116 million, up versus the prior quarter and also up versus the prior year when adding back the non-controlling interest impact of the Australia IPO in the quarter.

Let's cover Canada on slide five first, where operating earnings were $40 million for the quarter, up $4 million from the prior quarter. We saw mild sequential increase in home prices while the national unemployment rate increased slightly versus the prior quarter to 6.8%.

Flow NIW was seasonally lower but up versus the prior year from a larger originations market and share progression. The loss ratio decreased four points from the prior quarter to 22% from fewer new delinquencies, net of cures. The loss ratio was up slightly versus the prior year from higher average reserve per delinquency related to certain regions partially offset by fewer new delinquencies, net of cures.

Turning to Australia on slide six, operating earnings were $30 million, down $3 million versus the prior quarter. As in Canada, macroeconomic conditions were generally stable in the quarter as the national unemployment rate was 6.1% at quarter end and overall home prices experienced modest gains sequentially.

New delinquencies were higher and cures were lower sequentially as is typical in the first quarter of the year. During the quarter, the Australia business recorded a $7 million pre-tax receivable for expected recoveries related to paid claims.

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Based on a history of successful collection activities over the last few years and the current economic conditions, an expected recovery rate has been established and recovery receivable related to claims paid was therefore recorded. The establishment of this receivable impacted the loss ratio favorably by nine points with the loss ratio coming in at 15%.

Flow new insurance written was down 20% sequentially, reflecting several factors including typical seasonal slowdown seen in the first quarter, reduced levels of mortgage originations in the greater than 90% loan to value segment, and the timing of lender processing. We continue to maintain good relationships across our customer base and continue to explore market opportunities with other lenders or segments, as well as other contracts up for renewal in 2015.

In Australia lender relationships are governed by contracts, which come up for renewal as part of the normal course. We are currently in an RFP process with one of our larger lender customers, whose contract is up for renewal later this year.

Finally, we estimate the effective tax rate for Australia in 2015 to be between 30% and 35%, up from 22% in 2014, given that we are no longer asserting our intent to permanently reinvest earnings in Australia as we evaluate our strategic options.

Moving to slide seven in U.S. MI, net operating income was $52 million for the quarter, up $31 million from the prior quarter. The loss ratio for the quarter was 33% and reflected seasonally lower new delinquencies and favorable net cures and aging of existing delinquencies. NIW was seasonally down from the prior quarter, but benefited as the business increased its single premium lender paid new insurance written, reflecting its selective participation in this market.

Future volumes of this product will vary in part depending on the evaluation of the risk return profile of these transactions. NIW is up from the prior year from a larger originations market, higher refinance activity, and an increase in market share to approximately 15%. At quarter end 58% of the risk in-force is composed to 2009 and forward books of business. We anticipate this percentage will grow to between 60% and 70% by the end of this year.

Turning to slide eight, regarding capital and our primary MI platforms, we had solid and improving levels in our primary platforms in the quarter. The prescribed capital amount, or PCA ratio, in Australia is estimated at 163%, up from the prior quarter from continued strong statutory income and a A$100 million increase in reinsurance, that was partially offset by dividends paid to shareholders.

The Australia business continues to evaluate potential capital management initiatives that would improve its ROE. To that end GMA has received regulatory approval for the potential issuance of up to A$250 million of subordinated notes that would qualify as Tier 2 capital. A decision to issue these notes has not yet been made and will be subject to business and market conditions.

For Canada, the minimum capital test, or MCT ratio, is estimated at 233%, up eight points from the prior quarter. Approximately half of the increase related to the implementation of the revised MCT guidance that was effective January 1. As Canada announced last night, the Toronto Stock Exchange accepted the business' intention to pursue a share repurchase through a normal course issuer bid. Genworth Financial currently plans to participate in this normal course issuer bid, ultimately benefiting cash at the holding company and within U.S. MI. And it'll keep our overall ownership percentages at their current levels.

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In U.S. MI at quarter end, the risk-to-capital ratio for GMICO was approximately 13.8 to 1, down from 14.3 to 1 in the prior quarter from an increase in statutory income.

Turning to the U.S. Life Insurance Division as shown on slide nine, net operating income was $81 million. The long-term care insurance net operating income in the quarter was $10 million. Results benefited from favorable mortality, which drove higher claim terminations, as we've seen in the first quarter for the last several years. But this was partially offset by higher severity on new claims, where we had a higher mix of claims with higher daily benefit amounts. The quarter also included net unfavorable adjustments of $7 million.

Moving to slide 10, in-force rate actions continue to favorably impact earnings, benefiting premium and reduced benefits by $44 million in the quarter, $3 million lower than the prior quarter, with most of the benefit coming from the 2012 rate actions as can be seen on slide 11.

I would like to provide some perspectives on our LTC results in the quarter and going forward. First, given our updated claims expectations, future in-force rate actions will be very important to our results. In the near-term as we are mostly through the 2012 rate actions, we anticipate that the impact of reduced benefits will continue to subside with incremental premium growing modestly until the new rate actions are implemented over the coming years.

In addition we are setting up higher claim reserves on new claims since the implementation of our new claim reserve assumption and methodology changes in the third quarter of 2014. Such higher initial reserves depress earnings in the period in which they are established, but future periods are expected to be better than when using the prior factors. With these dynamics we expect LTC earnings this year to be modest with some variability period to period.

Second, we continue to enhance and refine our claim reserve analytics, including hindsight testing and analyses of actual to expected experience. The analyses show that our claim reserve experienced in the quarter was slightly better than our revised assumptions in the aggregate, given the favorable mortality that we saw. Mortality results vary and can significantly impact earnings from quarter to quarter, and we will continue to assess our claim reserve adequacy quarterly.

Third, we are also addressing the projected pattern of profits followed by losses. As you may recall from the last quarter, the loss recognition testing margin on our block written since late 1995, or the HGAAP block, was a positive $2.3 billion on a GAAP basis. However given the new claims severity in-force rate action assumptions, the earnings over the projection period display a pattern of profits for the next 15 years or so followed by losses thereafter. The profit period has a present value of approximately $3.5 billion, while the present value of the losses is a negative $1.2 billion.

During the quarter, we developed a methodology to accrue for these future losses. We are essentially setting aside a portion of pre-tax marginal profits on the HGAAP block and reserve to fund projected losses in the future. The portion of pre-tax marginal profits is roughly the ratio of the present value of future losses divided by the present value of future profits or approximately one-third. Given the low level of earnings in that quarter on this block, there was essentially no impact on our results. The provision for this reserve is expected to increase as future in-force rate actions benefit results.

Fourth, given the negative margin on our older acquired block in our 2014 testing, GAAP reserve assumptions were unlocked and reset, so that the expected margin is zero as of year-end 2014. With zero margin, this block is a higher likelihood of future unlocking. During the quarter we evaluated our underlying assumptions and concluded

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that no changes were needed at this time and therefore did not unlock again. In the quarter, this block had minimal marginal income.

Finally, we're highly engaged in remediation of our material weakness. Let me remind you that the operational control deficiency that triggered this conclusion in the fourth quarter did not materially misstate earnings or involve a restatement. We plan to have this fully remediated in 2015.

Moving to slide 12. Operating earnings in life insurance were $40 million for the quarter, up from $1 million in the prior quarter, which had a $32 million unfavorable reserve correction.

Mortality experience was favorable in aggregate versus pricing, in line with the prior quarter and favorable versus the prior year. During the quarter, we completed a reinsurance transaction that enabled us to lower our financing costs and excess reserves on a term insurance block by about $15 million pre-tax annually. This transaction had a minimal reduction in earnings in the current quarter.

For fixed annuities on slide 13, earnings were $31 million, up from the prior quarter from favorable mortality and lower lapses.

Turning to U.S. Life statutory performance on slide 14, unassigned surplus decreased approximately $40 million sequentially and the RBC ratio increased 12 points sequentially to approximately 450% in the quarter both driven by the reinsurance transaction I mentioned earlier. RBC levels in our Bermuda subsidiary, BLAIC, were approximately 340%, down slightly from year end. We plan to repatriate the LTC business in BLAIC to the U.S. Life companies later this year.

Shifting to slide 15, in the Corporate and Other Division, the net operating loss for the quarter was $41 million. International Protection reported net operating income of zero in the current quarter, up from a loss of $4 million in the prior quarter. As a reminder, the prior quarter included approximately $4 million of unfavorable items. Runoff earnings were lower by $5 million compared to the prior quarter, related to less favorable taxes, partially offset by equity market growth. Lastly, we had tax favorability in Corporate and Other in the prior quarter that did not recur.

Moving to investments on slide 16, our general account continues to perform well. The global portfolio of core yield is down 10 basis points from the prior quarter at 4.28% due to the impact of lower rates, unfavorable FX, and higher cash balances in our U.S. Life portfolios that we were prudently holding, but now plan to invest opportunistically.

As shown on slide 17, at the holding company, we continue to maintain significant liquidity, with available cash and liquid assets of over $1 billion and include $132 million of dividends paid primarily from our international mortgage insurance subsidiaries, representing a buffer of approximately $585 million in excess of 1.5 times debt service and restricted cash and well above our $350 million risk buffer.

I would note that we intend to refresh our shelf registration statement shortly as it would otherwise expire. However, given our significant liquidity at the holding company combined with the strategic initiatives we are pursuing, we have no current plans to raise equity or debt. Our strategic initiatives are being developed with debt reduction as an important goal. In addition, the sales process for our lifestyle protection insurance business is proceeding well so far. The net proceeds from the sale would ultimately provide additional cash to the holding company. As a reminder, given current book value of that business, we anticipate a significant loss on sale.

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All in all, we saw a pretty good quarter in most of our businesses and generally solid capital improvements as well. We are working urgently on our strategic review, so we can position Genworth for future success.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin the Q&A portion of the call. As a reminder, please refrain from using cell phones, speaker phones, or headsets. [Operator Instructions] We'll go first to Nigel Dally with Morgan Stanley.

Nigel P. Dally
Morgan Stanley & Co. LLC

Q

Great. Thank you. Good morning. So with Australia, you touched briefly on this in your prepared remarks, but hoping to get some additional data. It seems like one of your key customers, National Australian Bank is putting their mortgage insurance contract out to bids, hoping to get some details on how large the customer are they – are for you and perhaps just some overall commentary on the competitive conditions?

Kevin D. Schneider
Executive Vice President – Genworth and President & CEO, Global Mortgage Insurance Division

A

Hey, good morning, Nigel. This is Kevin. The National Australia Bank probably represents roughly 10% of our new insurance written in Australia and this is sort of a normal course negotiation. Their contract with us that we've had in place for some time has an expiration date, I think, in early fall, September, October type timeframe. And it would be normal for us to enter into a negotiation with them and they put out an RFP that we'll be working closely with them to try to renew that business in place.

Nigel P. Dally
Morgan Stanley & Co. LLC

Q

Okay. Just secondly with PMIERs, in the past, you talked about reinsurance funding the majority of the need, and now it seems like you're talking about HoldCo cash as well. Should we expect HoldCo cash to be accounted for the majority there? Just trying to get some color on the likely mix between HoldCo cash and reinsurance?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

Nigel, it's Tom. Let me take that one. We had anticipated prior to the finalization of the PMIERs to use mostly reinsurance. Given how the final capital requirements came out, we don't think the reinsurance on the 2005 to 2008 blocks is attractive as it was with the draft. And looking at that, I think in the end, we'll end up with a mix of reinsurance and cash from the holding company. How that will play out will be dependent on the final negotiations on the reinsurance terms.

Nigel P. Dally
Morgan Stanley & Co. LLC

Q

Okay. Thanks, Tom.

Operator: Thank you. We'll take our next question from Jimmy Bhullar with JPMorgan.

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Jamminder Singh Bhullar
JPMorgan Securities LLC
Q

Hi. Just first, can you comment on like if you were to sell GLAIC and there have been lot of news reports about that. How much of the capital you would have to leave in GLIC and how much could you move up to the holding company?

And then secondly on long-term care, I think Marty mentioned in his remarks that you expect earnings in 2015 to be modest. So does modest mean that 1Q is a good run rate or would you expect earnings to decline from there? And then related to LTC, can you talk about just potential unlocking in the long-term care block? Do you expect to adjust your reserve every single quarter going forward or would you do a more detailed review maybe on an annual basis?

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

So Jimmy, I'll take the first of your three questions.

Jamminder Singh Bhullar
JPMorgan Securities LLC
Q

Sure.

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

And I'm going to ask Marty to talk about the next two questions. I talked about life and annuity, how we see that. We have solid positions, but we're not a leader in any of those businesses and clearly there is a lot of intense competition for life and annuity, lot of companies in the U.S., so we're looking at all of that.

Were we to move forward with a deal selling some of the blocks or potentially GLAIC, we would clearly have to receive regulatory approval first to do the transaction and then on the proceeds to the extent we wanted to move some of the proceeds to the parent company, we also need regulatory approval for that. We're in the early stages of talking to players who might be interested in the blocks or the GLAIC entity. So it's really too early in the process to really be able to say more at this point.

Jamminder Singh Bhullar
JPMorgan Securities LLC
Q

Okay.

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

And I will turn it over to Marty for the other two questions you had.

Martin P. Klein
Chief Financial Officer & Executive Vice President
A

Jimmy, it's Marty. So on the other couple of questions, one was, we expect long-term care earnings to be modest. Frankly given a lot of the moving parts that we tried to talk about in the prepared remarks, whether it's the new claim reserve factors which depress earnings in the current period in which new claims come in, but have

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presumed better result. In future quarters, we've got potentially more volatility in the P GAAP block and I'll come back to that.

We got this profits followed by losses accrual. We've got the rate action dynamics where we expect that to begin to taper off. But I think as we roll out – as people accept rate increases, the behavior and the timing of that is still pretty volatile and those reserve releases are hard to predict with certainty quarter-to-quarter. So I'd say it's very hard to predict a quarterly run rate. I think they are going to be modest. I would describe this quarter as modest. But I'm really reticent to give you a number, but I would call the quarter modest profitability and we kind of expect it to be modest and it's going to bounce around, some quarters are going to be better and some quarters could be worse given a lot of these dynamics here.

I do think the first quarter does tend to benefit a little bit from a seasonality perspective. We've seen that in some prior quarters that I think I mentioned from a mortality aspect and so it helps claim termination rates typically in the first quarter. Sometimes, it gets a little bit worse in the fourth quarter, so it's a little bit of seasonality you might think about.

The other thing on the P GAAP block is, well, obviously with zero margin, our likelihood of unlocking is higher. We're assessing the assumptions and looking at them every quarter, but these are long-term assumptions that we make as we think about margin testing, so I think it's generally pretty unlikely unless you see really big changes in the quarter that we have made some changes. But certainly, it is not out of the realm of possibility during the year. So...

Jamminder Singh Bhullar — Q
JPMorgan Securities LLC

And then the main things there would be obviously just claims experience that you're seeing, but then also any changes in your assumptions about rates and stuff, right?

Martin P. Klein — A
Chief Financial Officer & Executive Vice President

Yeah, I think that's right.

Jamminder Singh Bhullar — Q
JPMorgan Securities LLC

Which you wouldn't revise on – you wouldn't necessarily revise those on an ongoing basis, but I think every year or so you would probably take a deeper look and assess whether rates are where you expect them to be because I don't think you would end up revising them based on small changes in rates every single quarter.

Martin P. Klein — A
Chief Financial Officer & Executive Vice President

You mean interest rates?

Jamminder Singh Bhullar — Q
JPMorgan Securities LLC

Yeah, interest rates or even claims experience.

Martin P. Klein — A
Chief Financial Officer & Executive Vice President

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Yeah. No, I think that's right. When we think about margin testing, which really drives the unlocking and it's really kind of a longer term view of interest rates. So little movements quarter to quarter are really going to drive a big change. Or obviously, if there is a huge change in macroeconomics or U.S. economics that we look at, that gives us a totally different view longer term, that would be an impact. And I'd also say claims experience, when you have 50,000 claims on the books roughly, it does move a lot quarter to quarter potentially. So you kind of have to take any quarter whether it's really good or really bad with a bit of a grain of salt in the context of looking at 20 years of claims experience.

Jamminder Singh Bhullar — Q
JPMorgan Securities LLC

And just on your interest rates assumption for the block, could you just talk about what it actually – what type of long-term rates you're assuming and when you're assuming they will get there? And then if we are at this type of rate environment by the end of the year, where the 10-year's hovering around 2%, would you reassess your assumptions or when would you reassess?

Martin P. Klein — A
Chief Financial Officer & Executive Vice President

For GAAP loss recognition testing, I don't actually have the number at my fingertips but it's in our materials from the last quarter. We showed the rate for the P GAAP block that we're using as well as the H GAAP block and that basically is the portfolio rate. I think for the P GAAP block, the way that that portfolio was constructed, I think it's unlikely to have very significant changes in that portfolio yield over the next few years, whatever the rate environment is. But obviously the lower rates are, the more that will come down over time.

Jamminder Singh Bhullar — Q
JPMorgan Securities LLC

Okay. Thank you.

Martin P. Klein — A
Chief Financial Officer & Executive Vice President

Yep.

Operator: Thank you. We'll take our next question from Ryan Krueger with KBW.

Ryan J. Krueger — Q
Keefe, Bruyette & Woods, Inc.

Hey. Thanks. Good morning. First one for Tom. Last quarter, you mentioned a debt reduction target of $1 billion to $2 billion, is that still the right way we should think about what you're looking at going forward?

Thomas Joseph McInerney — A
President, Chief Executive Officer & Director

Yes, Ryan. We haven't changed that view.

Ryan J. Krueger — Q
Keefe, Bruyette & Woods, Inc.

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Okay. Great. And then in terms of that related question, a lot of your debt instruments would have bond prepay penalties. But is the $1 billion to $2 billion – would that include the prepay penalties associated with that or would that be something that would occur just in addition?

Martin P. Klein
Chief Financial Officer & Executive Vice President
A

No. That would be the notional amount of debt we'd want to take down, so obviously any prepay things would be in excess of that.

Ryan J. Krueger
Keefe, Bruyette & Woods, Inc.
Q

Okay. Got it. And then just wanted follow up on Jimmy's question, I guess, regarding GLAIC and GLIC. It looks like GLAIC had 670% RBC ratio at the end of the year and if I strip that out from GLIC, GLIC was closer to 275% to 300%. So I want to confirm is that the right way to think about GLIC on a standalone basis or there are other factors that I guess I should consider?

Martin P. Klein
Chief Financial Officer & Executive Vice President
A

I don't have the number at my fingertips on GLIC without that on consolidated, but that seems just about in the right ZIP Code, but obviously as it's looked at from a regulatory standpoint, as we look at it, obviously the investment in those subsidiaries, GLAIC for example, is a very important part of its overall capital structure. We do rebalance capital sometimes among the affiliates, but obviously the investment in subs, including investment in GLAIC is a big part of their RBC and GLIC.

Ryan J. Krueger
Keefe, Bruyette & Woods, Inc.
Q

Got it. And then just last one if I could. I guess you talked about increasing capital buffers for long-term care. How are you thinking about that at this point in terms of what would be an appropriate buffer? Are you thinking about some sort of RBC ratio target or other types of metrics?

Martin P. Klein
Chief Financial Officer & Executive Vice President
A

Yeah. We're still working through that. Ryan, it's Marty. I think that we've been looking at the economic capital behind it, which is really different than what kind of way RBC works, but if the RBC doesn't really have an appropriate interest rate risk, components of the interest rate risk that is in long-term care.

We also want to look at it from a practical standpoint. We want to make sure that we have enough capital in the business to absorb some of the volatility that's in the business from a statutory earnings volatility standpoint and so forth.

So we're looking at it, and I think it's going to come in the form of either a higher RBC ratio, or it could come in the form of a RBC ratio plus a buffer. I think ultimately we're kind of working through it, looking at it through those lenses. And also as we work through some of the strategic actions that Tom spoke about, and we look at the businesses that we have in the U.S. Life business, at the end of all that we want to look at that business profile as well.

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Ryan J. Krueger
Keefe, Bruyette & Woods, Inc.

Q

And the LTC gap equity that you disclosed of $7.1 billion in the presentation, what would that be on an ex-AOCI basis?

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

We don't provide that number, but obviously with where interest rates are and with the value of some of the hedges and so forth, that's a lot different number.

Ryan J. Krueger
Keefe, Bruyette & Woods, Inc.

Q

Okay. All right. Thanks a lot.

Operator: Thank you. We'll take our next question from Sean Dargan with Macquarie.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

Thank you. Just following up on the line of questioning around life capital. Can you just remind us, do you write life and annuity business out of GLIC as well?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

Yeah. We actually write life and annuity out of GLIC – GLICNY, our New York company, and GLAIC. The principle life and annuity business, the majority of it is in GLAIC.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

If we assumed hypothetically that GLAIC was sold or reinsured away and that BLAIC was repatriated, do you have any sense of what kind of RBC would be required to back an LTC-only business?

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

Well it's Marty again. If it were an LTC-only business, I think it would be higher, given kind of some of the things I talked about earlier. But we're not sure yet as we work through the strategic evaluation of what businesses we're going to have in the remaining U.S. Life companies. We may have everything. We may not sell anything. We may sell part of those things. So it's going to be a function of the remaining businesses. We haven't really concluded on what an LTC-only capital ratio would look like.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

Okay.

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

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Yeah. I mean and what I would add to that, Sean, it's Tom, is that obviously we're looking at the pluses and minuses of some of these strategic actions that we could take. But also we are in discussions with the rating agencies and with regulators. And part of the overall strategic decisions, in addition to the straight financial aspects of it, will be what does the company look like after the step, how would that be perceived, what are the growth prospects, what's the volatility.

So all those things go into the decisions that we're going to ultimately make, and as we've said we have I think very good outside financial strategic advisors that are helping us, management, team as well as the board think through all of that.

Sean Dargan Q
Macquarie Capital (USA), Inc.

Just one last follow-up then. Is there a nuclear option on the table? In other words if you sell or reinsure away life and annuity, that you decide to draw a line in the sand and not contribute another penny to LTC? And come up with solutions for Canada MI and U.S. MI to the benefit of shareholders?

Thomas Joseph McInerney A
President, Chief Executive Officer & Director

Well, Sean, I don't know how to necessarily answer that. I would say that obviously it's very important to our regulators that we appropriately capitalize and reserve our long-term care business. So whatever we decide to do strategically, working – we have very good relations with all of our regulators, including the states in the U.S., and I think we want to maintain that.

So looking at long-term care I think it's important going forward that we capitalize it correctly, consistent with what the regulators would like us to have in the business.

Sean Dargan Q
Macquarie Capital (USA), Inc.

Yeah. Thank you.

Operator: Thank you. We'll go next to Suneet Kamath with UBS.

Suneet L. Kamath Q
UBS Securities LLC

That wasn't even close. So on GLAIC I just wanted to follow up. Given your desire to delever would there be a scenario where you would sell GLAIC, even if you couldn't get the majority of the proceeds out to the holding company?

Thomas Joseph McInerney A
President, Chief Executive Officer & Director

Look I think moving forward with GLAIC as one of the options that we're looking at, what we could do with the proceeds are a big part of that decision. So again we ultimately will be talking to the regulators for our various entities. And that will be all part of the decision.

Martin P. Klein A
Chief Financial Officer & Executive Vice President

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And it's also, Suneet, a function of the other things that we're looking at, so it's not just in isolation. We got to look at all the things we're trying to accomplish. And look at it kind of in aggregate holistically. There may be other things that we could do to help pay down debt as well as just life and annuity sales.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. But given that you've already talked about potentially selling GLAIC, can we assume that you've already had some preliminary discussions with regulators? Or is that a stretch?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

Yeah. We talk to regulators all the time. Most of the discussions and most of our focus on long-term care with the regulators is around the premium increases. And we have generally talked to them about the options we're considering. But that going forward discussions with them will be very important.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. Got it. And then the follow-up is on BLAIC. You'd mentioned your expectation to repatriate that this year. So two quick ones on that. First, is that your decision? Or is that something that the regulators or rating agencies are prompting you to do?

And then second, is there a sense of what incremental – essentially where you'd want to run that in terms of – an RBC once it's all consolidated? Just want to get a sense of if that's a source of additional capital need once you repatriate it. Thanks.

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

I'll take the first part of that, and then ask Marty to talk about the RBC impacts. The decision to repatriate BLAIC is our decision. There's no pressure from the regulators specifically on that. There is a general view of state regulators in the NAIC. The fed is starting to weigh in with not Genworth particularly, but the entity, the insurance companies that they oversee and they have suggested there are issues with captives in the reinsurance.

I think from our perspective, we believe it's very helpful for investors in the market to understand long-term care as a total book of business and so our decision to repatriate that is mostly because we think it is good for investors, shareholders, and the market to gain a better understanding of the long-term care business by reinsuring it back to GLIC. And also we think that going forward it's easier to manage. And we haven't really utilized a lot of the advantages in Bermuda because we have used pretty high RBC underneath that.

Also the last point you may be aware that Bermuda is working on its own regulatory framework. They appear to be moving towards a Solvency II type of structure. And so again, as they go forward with that, we think in general the broader benefits in the historical paths for Bermuda aren't as much. So we think for all those reasons it makes sense, but it's really our decision to do it and not anything that the regulators are asking us to do. But on the RBC, Marty, if you want to just address that.

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

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Sure. Suneet, right now BLAIC as I said has RBC of around 340%. To Tom's point, that used to be managed many years ago at a much lower number but we've been managing at a much higher number in recent years. Capital behind that business excluding LPI and other things, capital just behind the long-term care business is around $800 million. Obviously at the time, we repatriate, it is at the time we do it going to have a bit of a dilutive impact on GLIC's RBC. It's going to be a function of when we do it and obviously when we do it, whatever the RBC looks like in GLIC if we've changed the profile of GLIC at that point in time or not, that will be a consideration. And it will be a function of the amount of the capital that's repatriated that goes up with the long-term care block.

To give you a sense for right now, if we would have repatriated at the end of the quarter given the U.S. Life companies were around 450% RBC and BLAIC is at 340%, that would have had roughly a 40 point impact on RBC of the U.S. Life companies, just to give you a sense for if we would have done it at the end of the third quarter.

Suneet L. Kamath
UBS Securities LLC

Q

All right. Thanks.

Operator: Thank you. We'll go next to Steven Schwartz with Raymond James.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Hey. Good morning, everybody. A couple of different things. Tom or Kevin maybe, can you discuss the PMIERs and the decision to meet the standards immediately as opposed to possibly delaying? I just wondering if it's really necessary and if possibly delaying could actually save money for shareholders?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

In my remarks, I said that we view U.S. MI as one of our best businesses. We're very pleased that it's gained some market share. And so we believe from a competitive perspective, it's very important that we comply on the effective date at the end of the year. So that's what's really driving it from a strategic perspective.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Okay. And then Marty, maybe you can discuss the 2013 rate increases for LTC? You hit the target for 2012. What's the target for 2013, have you said that?

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

We haven't announced a kind of target for it. I think as Tom indicated in his remarks, I think starting next quarter, we're going to come up with a new framework on how to talk about our rate actions. We had the 2012 rate actions, which were pretty dramatic, and at the time, we launched those, we gave folks a sense of what our expectations were. I think at the time, it was $200 million to $300 million, we refined it later to $250 million to $300 million. We also said at the time, it takes many years to implement, which is turning out to be the case.

And as Tom indicated, we're kind of now have hit that zip code of the expectations with a few more states to go. As we're playing forward on a lot of the future rate actions, we need to make sure we're giving investors a way to think about the progress we're making on those filings, and particularly the progress we're making versus kind of the

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margin testing that we did last year, which I know investors are very focused on. So we'll kind of lay that out for folks in the next quarter.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Well, okay. And my understanding from Tom's remarks was that, we were expecting this for the quarter, we got this. Would we be getting a total number at some point?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

So I think what we will do is, we'll – there are three metrics that we'll report on quarterly going forward. One will be the actual filings that we've made for LTC premium increases. The second will be what approvals we've received from how many states. And then the third will be what is the economic impact in terms of either premium increases or benefit reductions and how that plays out going forward.

So we'll be doing those three metrics going forward. And then last quarter, Marty gave you a sense for the overall need for premium increases both on a net present value basis as well as a rough target, which we'll change over time in terms of what we think at the peak what it would have to be on an annual basis. But depending on how it all plays out and whether it's benefit reductions or premium increases, that will change. But you'll see those three metrics going forward.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Okay. Fair enough. And then one more if I may. Marty, just to follow up on the accounting discussion with regards to the liability that you'll be setting up for long-term care on the H GAAP book of business, that benefit ratio is applied to what premium?

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

We're going to apply it to marginal profits, which really I think in terms of kind of pre-tax profits before overhead expenses are applied and then looking only at the H GAAP block and then we'll take roughly a third of those profits and accrue that liability every quarter as it happens. This quarter the H GAAP block didn't really have much in a way of positive profitability, so we didn't really technically set up the accrual this quarter because it would have been de minimis. But that's the way it will work kind of going forward. So think in terms of that historical GAAP book as it makes money roughly a third of that on a marginal basis before overhead will be set aside to fund this accrual over time.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Got it. Okay. Thank you.

Martin P. Klein
Chief Financial Officer & Executive Vice President

A

Yep.

Operator: Thank you. We'll go next to Colin Devine with Jefferies.

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Colin Devine
Jefferies LLC

Q

Good morning. I had a couple of questions this morning. First off, just to recap, I think I've heard is that U.S. and Canadian MI, you're absolutely keeping long-term care, you're fixing up and it's maybe TBD, I would say, to be determined. And then everything else potentially could get sold, just to confirm that. Secondly, Marty, if we look across the business for the quarter, what would you have considered sort of Genworth's overall core earnings run rate? Also trying to think about the baseline going forward from here. The third one would be on long-term care and the potential for a closed block. Is that still something that you're considering?

And then finally, obviously, you do not need another rating downgrade. S&P did put you on criteria watch, via their new capital model. How do you get that resolved? Is bringing back GLAIC going to do that for you or is something you may need to raise capital to address? Thanks.

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

So Colin, it's Tom. I'll take the first and – we are looking at a broad set of strategic options, broader than what you summarized. I would say, just confirm what I said in my remarks, we believe that when you look at future top line growth, earnings growth, return, the competitive landscape, our position in the market, you factor all those things and we look at all of our businesses, we do believe that U.S. MI and mortgage insurance Canada or MIC are the two best businesses looking at all those criteria together. So that's step number one.

And then we do believe that there is significant strategic shareholder value to be created by working closely with regulators to receive substantial additional premium increases. In my mind, one of the biggest drivers of improving the value of the company to shareholders is to be successful and be able to deliver the premium increases or benefit reductions we've talked about. So those are two very important points I think to make.

We are looking on life and annuity or GLAIC. The issue there is, we have solid positions, but we are not a leader. There are 850 life companies that compete for life and annuity business. So it clearly puts pressure on all of us in the marketplace in terms of returns. And then we have a particular issue in that relative to some of the other top life annuity players, our ratings are lower and particularly with S&P and Moody's.

On the long-term care side, while we do think the ratings have had an impact in our financial institutions channel, most of the LTC businesses sold through BGAs and IMOs. They focus on the A.M. Best rating. That's A-minus, which is certainly an acceptable rating. And we're also – compared to competitors, we are the leader in long-term care. And so from a competing perspective, it's a different place than we are with life and annuity.

And I do think – as I said, we are looking at a variety of options. One of the options that you raised – and I'll ask Marty to comment on your other three points but that one too. We do look at and we have looked over time, does it make sense to separate the older blocks, the four older blocks which are the most problematic from the other blocks. There are pluses and minuses to doing that. I think most importantly, whether we do have from a U.S. GAAP accounting perspective or not, we still have the old blocks, and we still need to improve them, and that is a – extremely important part of our strategy is to realize those very large premium increases and benefit reductions that we are shooting for.

So Marty, over to you for the rest of Colin's points.

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Colin Devine
Jefferies LLC
Q

Yeah, Tom, just to interject for one sec but I think also there's a lot of confusion out there. But for you to clarify that even if you did go the closed block route, from a regulatory perspective, that really has no impact on your ability to get rate increases just in that context, correct?

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

Yeah. I think that's probably right. We really haven't addressed that specifically to regulators. When you do the closed block and the open or the new block separately, there are some management requirements under U.S. GAAP including you have to manage that block separately and differently. If we were to pursue that and we're considering it, that is something we would definitely want to talk with regulators and we would not want to do it, if regulators have an issue with it.

Colin Devine
Jefferies LLC
Q

Yeah. Okay. Thanks.

Martin P. Klein
Chief Financial Officer & Executive Vice President
A

Colin, it's Marty. Let me try to take your other questions. On the run rate question, we did have a couple of, I guess I'll call them non-recurring items. We had the one in long-term care that in aggregate was $7 million adverse after-tax. Then we had in Australia a good guy that borrows recovery accrual that was $7 million pre-tax.

So those are really couple of things I'd kind of call out specifically. With respect to the performances of our businesses and how to think about that over the course of the year, I'd say in the U.S. Life Division, we had good mortality and it helped things across the board in all three of the businesses in U.S. Life. I think that – while that would be great if it persisted all the way through the quarter. I don't know that that's likely to happen.

I think that the mortality we saw in the life insurance business, it was pretty comparable to what we saw in the fourth quarter but it does move around. And I think the likelihood of having good mortality help all three of those businesses throughout the year, is not necessarily likely, it'd be great. So I think we benefited from that this quarter. In the mortgage businesses, as I think folks know, we do have seasonality and in particular, U.S. MI, which is obviously in the stages of a very big recovery year-over-year as they add new business and have the old stuff burn off, but kind of all things being equal, the first half of the year tends to be better than the second half of the year due to the seasonality in that business. So those some of the things, I think I'd make note of.

On your question regarding S&P, S&P changed the ratings methodology a couple of years ago and as they have been looking at Genworth, it's become apparent to us that the level of capital is probably not as important to them – this is my words, not necessarily theirs – as maybe it used to be. In fact we have in our U.S. Life company 450% RBC. We're well into the 400s%. And if you think about our S&P rating in the U.S. Life company versus where RBC is, it's very inconsistent with where S&P had it a few years ago.

I think from S&P's standpoint it's not so much an issue about the level of capital. It's really the volatility in earnings and capital from a long-term care business. And that's the thing that takes a longer timeframe to rectify, which obviously we're working on with rate actions and trying to derisk the block as much as we can. But that is a longer issue.

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I think the S&P rating for us given where the rating is right now, frankly in the U.S. Life Division, the most important rating at the moment is the A.M. Best rating, which is A-minus stable. And that's the one that will allow us to continue to play commercially where we are, given where we are with S&P and Moody's, our access to distribution through the financial institutions, marketplace is challenged. So the A.M. Best rating is really the most important.

And then the other thing that's important to us about the S&P ratings is those ratings on the mortgage businesses. But they've really increased the notching with the last ratings action to I guess five notches. And so with the ratings we currently have in Australia and in Canada, those are certainly sufficient ratings for us to get the NIW and the business that we want to get. And obviously we're playing through with U.S. MI on PMIERs. As we play that through, that'll hopefully have a beneficial impact on the S&P rating there.

And I think Tom largely addressed the other question you had on the older block issues, so I don't have much to add on that one.

Colin Devine
Jefferies LLC

Q

Okay. Maybe the one follow-up. Tom, you mentioned a whole range of strategic options, perhaps more than I laid out. Is going private something that you would also potentially consider?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

I would say Colin that we're looking at a broad set of options, that's certainly one of them.

Colin Devine
Jefferies LLC

Q

Thank you very much. As much as I know you'd miss the earnings calls. But...

Operator: Ladies and gentleman, we have time for one final question from Scott Frost with Bank of America Merill Lynch.

Scott Frost
BofA Merrill Lynch

Q

Hi. Thanks for taking my questions. Just touching on the PMIERs issue again without going into the amount of the mix of cash and reinsurance. Can you give us an idea of the limit of cash you expect to use? In others words can you say we don't expect the cash portion of this to be greater than X?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

I can't give you that, because we are – while we've made a lot of progress on the reinsurance transactions, now that the PMIERs rules are final, we're finishing up the final negotiations with the reinsurers. We think they will be good contracts. And so once we finish that – so if the first priority is to use reinsurance. And then whatever else we need, we'll do from cash from the holding company.

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Scott Frost
BofA Merrill Lynch

Q

Right. Okay. And if you're in compliance with PMIERs by year end, what again would prevent you from resuming OpCo dividends in 2016? You said several years. I mean I would imagine that's I think 2017 or 2018. But what would prevent a 2016 resumption of OpCo dividends from U.S. MI?

Kevin D. Schneider
Executive Vice President – Genworth and President & CEO, Global Mortgage Insurance Division

A

Yeah. Steven (sic) [Scott] (1:01:36), our ability to pay dividends is really dependent on two things, both on a statutory basis and a PMIER requirement. And so on a statutory basis it's based upon sort of the greater of prior year net income or 10% of policyholder surplus. Going forward we expect sustained earnings to provide statutory dividend capacity.

But therefore PMIER really becomes a constraint to dividend paying. And as the legacy books continue to pay off, we would expect sort of our PMIER's sufficiency to improve based upon the new business. And ultimately that gets you to one you can really deal with the dividends.

But just hitting compliance doesn't necessarily just open up the door to allow you to hit the dividends. So we're a couple years out.

Scott Frost
BofA Merrill Lynch

Q

Okay. And on the U.S. Life business, I'm trying to figure out, let's – you say your conversations with regulators have typically been over rate, which would make sense, since you haven't sold U.S. Life.

But if we stipulate that you do get some sort of bid for GLAIC, how would the conversation go with regulators do you think? In other words you're going to go in and say I want – I need additional rate, I need to charge policyholders more. By the way can I upstream money to the HoldCo from those proceeds of this asset I just sold?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

Yeah, those are different things. So we have three state regulators overseeing our domestic life businesses. GLAIC is domiciled in Virginia. So any sale of GLAIC, if that's what we decided to do, has to be approved by Virginia, as well as the owner of GLAIC is GLIC. And GLIC is domiciled in Delaware. So the Delaware regulator would have to approve that as well. And then we – GLAIC does own a piece of GLICNY, our New York subsidiary, so New York would have to approve that.

So all three regulators, one would – whether we're selling blocks or the legal entity – would have approval of the transactions. And then the proceeds would also need – because the proceeds would be in excess of the regular dividend capacity. So it wouldn't be an ordinary dividend. And any time you look to take something other than the ordinary dividend out, you need the appropriate regulatory approval. So the discussions with the regulators will be around whatever we decide to do in terms of transactions.

I think what I said separately is we do have detailed and ongoing discussions with all the regulators, those three as well as all the rest of the states on the long-term care business. I mean it's a separate set of conversations.

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Scott Frost
BofA Merrill Lynch
Q

Right.

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

But I just would say that we have very close relationships. Clearly the three domiciliary states, but also the other states. So...

Scott Frost
BofA Merrill Lynch
Q

I guess put another way, do you think the request to pay up proceeds to the holding company from a life sale, if any, would jeopardize or impact your ability to get rate increases on long-term care?

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

No. I think they're really separate points.

Scott Frost
BofA Merrill Lynch
Q

Okay. Right.

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

The rate increases on long-term care are based on, these are guaranteed renewable products, long-term care. Regulators should grant us actuarially justified increases. So the LTC rate increases are based on that. We have always said that.

And I think if you look at some public comments of various insurance commissioners that have made in other forums, they have said clearly the regulators tend to be more open-minded on LTC premium increases for companies that are still in the business and writing new business, because obviously that does take off some of the financial burden on the states in terms of their future Medicaid budget. So but those are really – those will be separate conversations, will be with the same regulator, but separate conversations.

Scott Frost
BofA Merrill Lynch
Q

Okay. Thanks. And I guess, regarding the nuclear option question, you had said that there would – you alluded to the regulatory oversight that may preclude that, is that the right interpretation of that comment?

Thomas Joseph McInerney
President, Chief Executive Officer & Director
A

Yeah. I didn't frame the nuclear option now, that was Sean I guess. But I would say clearly in terms of – I think his question was around capital into long-term care. Clearly, as part of their agreement to give us rate increases, they also require, demand, certain levels of capital in the business. And so we would continue to have to work with them to appropriately capitalize the LTC business. We have done that. I think they have been pleased so far with

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the fact that we've been able despite all of the reserve actions we took in the third quarter and fourth quarter to maintain very sizable RBC ratios in the 450% range, but going forward clearly that would be important to them.

Scott Frost
BofA Merrill Lynch

Q

And let me make sure I'm putting this the right way too. Is it your sense that the regulators that oversee your – for example, U.S. MI business, do you think they are sympathetic to or cooperative with regulators that oversee your long-term care business or is it something they don't really worry about too much?

Thomas Joseph McInerney
President, Chief Executive Officer & Director

A

So there is a supervisory college and that is led by the Insurance Commissioner of Virginia and that supervisory college, it is pretty typical in global insurance companies like Genworth. They oversee – the college includes all the regulators. So this would be the Australian, Canadian regulators, the MI regulators in the U.S. as well as the life insurance regulators. So all of them work together and we do maintain excellent relations with all of them, and we're keeping all of them informed about the different strategic options we're considering. So I would say they work well together and we work well with them together and so we clearly would want to make sure that all of the various regulators that oversee us are comfortable with whatever steps we take.

Scott Frost
BofA Merrill Lynch

Q

Okay. Great. Thank you very much.

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

Thomas Joseph McInerney
President, Chief Executive Officer & Director

Thank you very much, Tresia. And again, I want to thank all of you for being on the call today. We appreciate that. We hope you found the discussion helpful and have a better sense of our strategy, the focus, and our priorities, and I hope what came through is a strong sense of urgency that we have to move forward and reshape the company. We are working closely with some of the best external financial and strategic advisors. I think we're making good progress on those strategic options. And we understand the critical importance of getting Genworth back on track as quickly as we can. We do appreciate your questions, your time today, your interest in the company. And we remain committed to providing you updates as appropriate going forward.

So thank you all again very much.

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

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