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GNW - Q4 2010 Genworth Financial, Inc. Earnings Conference Call

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OVERVIEW:

GNW reported its 4Q10 results and updated on its strategies.

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CORPORATE PARTICIPANTS

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

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

Kevin Schneider *Genworth Financial, Inc. - SVP, USMI President & CEO*

Pat Kelleher *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Buck Stinson *Genworth Financial, Inc. - R&P Insurance Products President*

CONFERENCE CALL PARTICIPANTS

Andrew Kligerman *UBS - Analyst*

Donna Halverstadt *Goldman Sachs - Analyst*

Mark Finkelstein *Macquarie Research - Analyst*

Joanne Smith *Scotia Capital - Analyst*

Tom Gallagher *Credit Suisse - Analyst*

Ed Spehar *BofA Merrill Lynch - Analyst*

Suneet Kamath *Sanford C. Bernstein - Analyst*

Darin Arita *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Genworth Financial's fourth-quarter earnings conference call and strategic update. My name is Allen 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 cellphones, speakerphones, or headsets during the Q&A portion of today's call.

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

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

Good morning and thank you all for joining us today. Our press release and financial supplement were released this morning and are posted on our website. Following our prepared remarks, our slide presentation will also be posted to the Web.

This morning you will first hear from three of our business leaders, starting with Mike Fraizer, our Chairman and CEO; followed by Kevin Schneider, President and CEO of our U.S. Mortgage Insurance segment; and then Pat Kelleher, Executive Vice President of our Retirement and Protection segment and Genworth's CFO. Following our prepared comments we will open up the call for questions and answers.

In addition to our speakers, Jerome Upton, Chief Operating Officer of our International segment; Ron Joelson, Chief Investment Officer; and Buck Stinson, President of our Insurance Products for our Retirement and Protection businesses, will be available to take your questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary note regarding forward-looking statements in our earnings release and the Risk Factors section of our most recent annual report on Form 10-K filed with the SEC in February 2010.

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

Finally, when we talk about International segment results, please note that all percent changes exclude the impact of foreign exchange. In addition, the results we discuss today for the Canadian mortgage insurance business reflect total Company results including the minority interest unless otherwise indicated.

And now, let me turn the call over to Mike Fraizer.

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

Thanks, Alicia. Thanks to all of you for joining us today for this extended investor update. I wanted to start with an overview of our quarterly and total year performance before shifting to specific strategic and operating perspectives which I will address along with Kevin Schneider and Pat Kelleher.

Simply put, results in the fourth quarter were not where I want us to be or where we need to be as we transition the Company to improved profitability. We can and have a path to do better.

U.S. Mortgage Insurance delivered very disappointing results, driven by a sizable reserve update. Our focus here was clear -- continue efforts on loss mitigation and attractive new business fronts, but accelerate dealing with additional negative factors that impact the US housing market; and do this while maintaining good capital flexibility to handle multiple US housing market scenarios.

In contrast, I was pleased with our International performance in the quarter. Canada and Australia remained strong, with improving loss ratios; and Lifestyle Protection in Europe is coming along nicely. Investments also continued its progress, while Retirement and Protection showed gradual improvement which we intend to accelerate.

On a total year basis, the assessment is similar. The USMI recovery is slower than anticipated and included some disappointing surprises. International executed well and remains right on track with planned improvements in earnings and ROE.

Investment recovery and reinvestment strategies were ahead of schedule. And Retirement and Protection had improving sales, but performance lagged particularly in the life line, that led to some earnings shortfalls that we should've gotten our arms around sooner. We did, however, attack these during the second half and now have a much better perspective on potential alternatives to improve these positions.

Shifting to a more strategic view of Genworth on slide 3, I want you to walk away from this call with five key perspectives. First, a whole series of actions we took during the 2008 through 2010 period put most of the challenges we experienced from the financial crisis and its aftermath behind us.

Second, the biggest issue remaining is the U.S. housing market and its impact on the U.S. Mortgage Insurance business; and we are hitting that head-on. The issues here are manageable. We have good capital flexibility and are concentrating on accelerating this business transition.

Third, we are focused on delivering improved performance across our businesses. We take a realistic view of our business lines and the performance we expect from each line to earn capital for new business and be in a position to contribute to shareholder value.

We think of them in two groups -- lines that are performing well, like Canada and Australia, that we expect will continue to perform; and others where performance has fallen short as a result of market factors or our own execution issues, or a combination thereof. Here we have taken and will continue to take necessary steps, some immediate and some over time, to improve performance; or we will make necessary decisions and take other actions, such as you saw with our recent announced exit of variable annuities.

Fourth, Genworth's financial position is strong. We have delivered on our capital and financial flexibility plans while minimizing shareholder dilution. You saw this in our Holding Company and operating company profiles as we finished 2010. And we will continue to execute on our plans to become even stronger.

Finally, we are intently focused on rebuilding value for shareholders in a disciplined and thoughtful manner, looking comprehensively at capital allocation, business mix, relevant financial and external factors, our competitive strengths, and how we perform against key metrics -- metrics that we will share with you today and that you may find helpful for tracking progress.

With those five perspectives in mind, we have built today's agenda which you see on slide 4. I will start off with a brief overview of some of the key actions we have taken over the past two-plus years to improve the focus, foundation, and potential of the Company. Then, Kevin, Pat, and I will provide more detail on our individual businesses starting with a thorough look at U.S. Mortgage Insurance, given the fourth quarter.

We will then go on to review our financial and capital positions and plans. Finally, I will wrap the session with views on our direction and how we approach rebuilding shareholder value; and we will then take questions.

We made progress across four key areas during the past two-plus years -- focusing the portfolio; reducing and repricing risk; repositioning the investment portfolio; and building financial flexibility -- with more progress to come. Let's look at each of these, starting with how we focused the portfolio on slide 6.

We concentrated our Protection and Retirement efforts on what we termed leadership lines of Life Insurance, Long Term Care, and independent advisor wealth management offerings in the U.S., and basic financial safety net protection products outside the U.S. that we term lifestyle protection. Also in the US, we took a hard look at annuities and supplemental offerings and said we would participate more selectively here, given factors such as competitiveness, risks, and returns.

We completed our annuity evaluation at year-end with our supplemental line evaluation remaining in process. At the same time we honed our mortgage insurance focus around our largest platforms, while putting the relatively small European MI platform in workout or reassessment mode, while carefully targeting future potential by individual country.

In addition, we closed MI in Japan and put Korea into runoff. Ultimately we exited or put into runoff areas including most of the institutional business, non-core MI offerings, and most recently variable annuities. Concentrating on our strengths remains the underlying theme here.

Turning to risk reduction and repricing actions on the next slide, you can see actions that we have taken to improve our risk-return positions. This has meant changes in certain product designs, particularly in Life Insurance -- here to improve capital efficiency -- and some in our Lifestyle Protection offerings to limit tail and adverse selection risk.

We broadly tightened mortgage insurance related underwriting in the U.S. and took steps internationally as well. We went on to reprice risk in Mortgage Insurance and Lifestyle Protection, while also taking another pricing action to address old LTC block in-force profitability. We will remain active across these fronts.

An additional way we reduced risks during this period, which continues today, is through execution of loss mitigation strategies, making sure we pay legitimate obligations but protect the enterprise from underwriting noncompliance or even fraud. Viewed together, these actions reduced volatility and improved margins and profitability.

Moving on to the investment portfolio on slide 8, we made strong progress over the past two years to reposition the portfolio, reducing risk while maintaining yield. A number of strategies supported this, from reducing sector exposures to building and then reinvesting cash with good timing, to being agile on the hedging front to protect against low rates, and finally to adding expertise while bringing in management of additional asset classes in-house.

As a result, our portfolio yield has remained stable at 4.7% through a period of declining rates and has a much better risk profile. Ron Joelson and his team have done a sound job here and remain diligent in their execution.

Which brings us to capital and how we managed it through the past 24 months, which you see on slide 9. Here you can see the primary steps we took to move through this period, including meeting our debt obligations, capturing value from risk management hedges, streamlining costs, establishing broad access to the capital markets, and assuring sound dividend flows to the Holding Company. Collectively, this added up to strong capital flexibility.

Additionally, we put ourselves on a path to reduce Holding Company leverage, to provide better future flexibility to shift the mix of our business portfolio. All the while we were conscious of and worked to minimize dilutive impacts to shareholders. We will look at capital and financial positions more thoroughly later this morning. Now I will turn it over to Kevin Schneider for perspectives on U.S. Mortgage Insurance. Kevin?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Thanks, Mike, and good morning. I have two objectives this morning. First, I will address our results in the quarter; and second I will provide a look ahead at the path to recovery. We believe we have taken significant steps to reduce uncertainty associated with future reserve development.

Considering the increase in reserves over the last two quarters, we have certainly taken prudent steps to bolster reserves. But to be clear, while I would love to tell you that we have reduced all uncertainty and put all reserve-dependent risk behind us, I simply cannot do that. What I can tell you that three factors help reduce the risk, given the various open issues in the housing market.

First, we increased reserves particularly for late-stage delinquencies based on emerging trends in the second half of the year and incorporated these views into our look forward.

Second, we are seeing credit burn-through on a frequency basis for the 2006 to 2008 books. Third, we expect continued benefits from loss mitigation, along with some degree of cures for loans in foreclosure status, based upon actual experience.

We also continue to execute our capital flexibility strategy, and I will update you on that front.

Now looking ahead, we are working to accelerate the return to profitability of the U.S. Mortgage Insurance business. New delinquency trends are encouraging; and although loss mitigation benefits are expected to decline, there remains continued savings opportunity. New business profitability remains strong, and we are actively working with the government to help shape public policy and further reinforce the role of private mortgage insurance in the US housing market.

All in all, we are poised and ready to take advantage of a housing market recovery. Now let's look more specifically at our reserve actions.

Genworth has increased reserves in the past two quarters to reflect changing dynamics in the housing market. Specifically, declining trends in modifications and cure rates. We think these actions are the appropriate moves, reflecting both our current observed experience and incorporating an anticipation of further declines.

The combination of existing unsold housing supply combined with the looming uncertainty of housing markets' shadow inventory remind us that housing fundamentals remain challenged, and we anticipate home prices will continue to decline.

Our reserve strengthening relates primarily to further aging and cure rate pressure in later stage delinquencies. This reflects continued challenges in problem geographies such as the sand states, and mixed servicer traction on loan modifications which have negatively impacted loss mitigation savings.

Considering the increase in reserves over the last two quarters, we believe we have reduced uncertainty in our future loss profile. Importantly, our claims paying ability remains strong.

We use various stress analyses with the rating agencies which assume a rapid deterioration from today's 14% ever-to-date decline in home prices on an FHFA Index basis to a 32% housing price decline, peak to trough, coupled with a 14% unemployment rate. Admittedly an aggressive downside scenario from where we are today; but regardless, we have sufficient liquidity and claims paying ability.

Now let's turn to delinquencies and the components of our reserve actions on the next slide. We added $350 million dollars to reserves, reflecting several factors. As you can see, overall delinquency counts are down nearly 27,000 from year-end '09. Our percent of delinquencies 12 payments or more behind, while still favorable to competitive benchmarks, has aged further.

We observe the following recent trends. First, loan modification activity declined in the fourth quarter, as we continue to see different workout experience among servicers. Second, we saw heightened foreclosures in several geographies.

These trends alone would have resulted in the addition of $150 million to our reserves in the quarter. However, based on fourth-quarter experience and the overall market trends we believe there is additional downside risk. Specifically we expect that modifications will continue to trend down and claims will continue to increase.

In anticipation of further decline, we added an additional $200 million of reserves in the fourth quarter, for a total of the $350 million in reserve strengthening.

On slide 14, let's look at our delinquency trends on a more granular level. You can see delinquency trends have been improving for early-stage and later stage pre-foreclosure delinquencies. These trends illustrate both the reduction in new delinquencies as the '06 to '08 books experience credit burnout and cure activity.

Delinquencies in some stage of foreclosure represent 50% of our current delinquencies. This number has grown in the second half of the year. Our reserve actions reflect all of these trends.

Now let's turn to the coverage these actions provide on slide 15. Let me explain why we feel that by taking the actions we did we have done our best to both incorporate existing experience and get ahead of the trends.

Overall, approximately 70% of our total flow risk in-force in some stage of foreclosure status is reserved for, up from about 49% a year ago. Delinquency issues are highly concentrated in the sand states plus Michigan. Given the concentration of the problem in these starts, the chart further delineates the higher level of reserves as a percentage of foreclosure in those geographies.

It is important to understand that not every loan in a foreclosure status results in an ultimate claim. For example, over 14,000 loans in some stage of foreclosure status cured in 2010. To put this in perspective, this is equivalent to roughly 30% of our current foreclosure inventory.

So based upon our current best estimates, we believe we are adequately reserved for the population of existing delinquencies in our portfolio for the three reasons I noted up front. First, we increased reserves particularly for late-stage delinquencies. Second, the credit burn-through in the '06 to '08 books of business. And third, we do expect continued benefit from loss mitigation to loans in foreclosure.

Now I would like to transition to look at our capital flexibility on slide 16. As you can see here, risk-to-capital levels increased to 21.9-to-1 on an aggregate basis in the quarter from reserve strengthening and higher paid claims. We have continued executing capital flexibility strategies that do not rely on cash held at the Holding Company for support, in order to manage market uncertainty.

As noted, we have taken several steps to further enhance capital flexibility in the quarter. We concluded an intercompany asset exchange of roughly $220 million, which benefited Genworth Mortgage Insurance Company -- or GEMICO, our flagship -- and exited the quarter with all entities remaining under the 25-to-1 regulatory threshold.

We have in place a sister entity which currently has $7 billion to $8 billion of NIW capacity to write business outside of GEMICO. Based upon our estimates, we expect to breach 25-to-1 risk-to-capital in early 2011.

That said, through our ongoing actions we have secured additional financial flexibility to write new business. Foremost, in January GEMICO received a two-year waiver from the North Carolina Department of Insurance to write new business above the 25-to-1 threshold, giving us flexibility to write business in 34 states. We are pursuing waivers in the remaining states that separately have risk-to-capital requirements.

Further, we are engaged in constructive discussions with the GSEs regarding stacked entity strategies that would further new business writing flexibility. In short, we continue to pursue a flexible capital strategy independent of the Genworth Holding Company to support new business.

Now let's look ahead to some encouraging trends, where we have seen improving trends in new delinquencies. New delinquencies have been flat over the last three quarters and first-time-ever delinquencies are declining, with more rapid declines in the 2006, 2007, and 2008 book years. We believe this is indicative of credit burnout on these difficult books of business.

We are also seeing a fairly stable trend in redelinquencies, which are made up of a combination of self-cures that end up in some form of chronic rollover delinquency state, and loans that were modified and subsequently became delinquent again. We are encouraged by modification redelinquency experience, which is running in the 30% range, compared to more traditional modifications that experience their rate above 50%.

Turning to slide 18, while loss mitigation has been trending down it is still an important factor to transition earnings, with an expected savings of $400 million to $500 million in 2011. As a direct result of our process to investigate targeted loans when they first went delinquent -- versus waiting until a claim was presented to us and then investigating the loan -- we eliminated a significant number of risks earlier in the cycle, allowing us to forego adding reserves for risk that would eventually be rescinded. This has accelerated the shift from rescissions to modifications.

While modifications have trended down, there continues to be loss mitigation opportunity. We parse the delinquency inventory into three groups on the right-side of the page to illustrate the source of that opportunity.

In my mind there are three reasons to believe modification opportunities remain. First we are working collaboratively with servicers to get the borrowers earlier in the delinquency cycle. Second, based upon intensified efforts with underperforming servicers, we have seen improvements such as the move to adopt a single point of contact case management approach by two of the biggest servicers. This approach is one of the best practices that has demonstrated better impact at other servicers.

Third, new modification programs, such as Fannie Mae's program announced in November that cast a bigger net of opportunity with features such as a wider range of debt-to-income parameters and a non-owner-occupied option allowing more borrower eligibility. The ultimate success of these efforts, however, will be determined by whether real traction can be generated on the new mod programs and whether servicer performance improves.

Turning to new business. Our new business continues to perform quite well. Through the cycle we took actions that will drive improved performance for years to come.

Our new business production is core prime credit quality business, fully underwritten and appropriately priced for the risk. The chart on the right illustrates how these actions have helped improve the performance of newer books, as you can see based on the loss ratio for our second-half 2008 through 2010 books of business.

The result is a growing collection of books of business priced to deliver 20%-plus returns. Looking down the road, in roughly three years our portfolio will be comprised of approximately 40% of this profitable insurance in-force. This new business is currently exceeding our price expectations.

Putting this together, once we transition through the remaining 2006 to 2008 books of troubled performance, we will see a return to mid-teens profitability for the U.S. Mortgage Insurance business.

Turning to production on page 20, we expect the overall origination market to face additional pressure from both rising interest rates and continued economic uncertainty. The size of the private mortgager market has obviously been impacted through the cycle. But we are experiencing a shift, although gradual, from the government-backed FHA market back to private MI, where penetration has grown for three consecutive quarters, finishing the year at an estimated nearly 5%. We expect the trend to continue into 2011.

As market conditions improve and the FHA transitions back to a more historical level, we see potential for the private mortgage insurance market to increase and for us to participate at attractive pricing and return expectations. We expect market share improvement to continue in 2011 and drive new insurance written.

Now let's turn to the regulatory environment. There are many moving parts on the housing policy front in Washington. New cycles often make it hard to figure out which comes first. Here is how we see them developing.

First, the qualified residential mortgage or QRM, which includes private mortgage insurance or other credit enhancement as an element for high-quality underwriting on low down-payment loans. This is currently being held up by two issues not even contemplated in the law -- debate over a sizable down payment and bolting federal servicing guidelines onto the QRM rule.

Second, FHA. Over the last three years Congress has tapped FHA to play an expanded role in our housing recovery. Much of that temporary role expires in September of this year, and we look for the administration's full-year 2012 budget to see where they intend to begin to reduce FHA's share in the market.

Third and finally, GSE reform. As a policy matter, comprehensive GSE reform is likely years away. This issue will be a political football in Washington for the foreseeable future.

We expect the status quo until the housing market stabilizes and various political views can come closer to a consensus. Importantly, as QRM moves toward a final rule, as FHA's role begins to return to pre-crisis market share levels, and as the GSE future unfolds, the private mortgage insurance sector is very well poised and positioned to succeed.

So in closing, in 2011 you can expect us to make significant progress against our overarching objective of returning the USMI business to profitability. We will continue to focus on managing our in-force book while adding highly profitable new business.

We are targeting $400 million to $500 million of loss mitigation benefits as part of managing our in-force book, and 25% to 45% NIW correct at high ROEs. While we expect that 2011 will be a challenging year, as our new business mix begins to outweigh the 2006 to first-half 2008 book years this business will return to mid-teen ROEs within three years of that transition.

With that, I will turn it over to Pat Kelleher.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Thanks, Kevin. I will now focus on our Retirement and Protection business. Before I get into the details, there's a few key points that I will highlight throughout the discussion.

First, it is clear we need to improve in-force performance, and we will spend a lot of time on that this morning. Second, we have made progress in refining our portfolio focus and identifying areas that do not merit continued new capital allocations. And finally, we will highlight our leadership positions in attractive businesses that offer good new business growth opportunities and attractive returns.

Moving to our in-force performance on slide 24. After being on an improving trend line, the overall return on our in-force business declined by almost 4 points in the last three years. This is unsatisfactory, and we need clear actions to reverse this trend, and we are pursuing this with a sense of urgency.

It is important to acknowledge that declines in investment markets contributed significantly to the decline in annuity and wealth management returns over this time frame. In fixed annuities we saw declines in spreads as we built cash along with credit losses in the 2008/2009 time frame. We have been able to reinvest cash and restore spreads in spite of lower interest rates.

In variable annuities, market declines combined with a lack of scale led to lower returns. Going forward, we will be focused on enhancing the profitability of our fixed annuity portfolio and will complete the exit of variable annuities.

Now let me focus on the two biggest topics of life and long-term care. Life Insurance profitability was much higher back in 2007. This reflected good business with good mortality experience and a low-cost expense advantage. We hit three negative factors which reduced returns that you can see on the left side of the page.

Number one, we used a combination of funding mechanisms, including enjoying the benefits of low-cost securitization for excess regulatory XXX and AXXX reserves. As the capital markets locked up, costs for this funding increased, although the reserve increases were limited contractually; and reinsurance and letter of credit pricing and supplies shifted. As a result, the excess reserve financing cost increased substantially.

We also experienced increases in lapse rates beyond levels anticipated on certain blocks of 10-year term business relative to our GAAP valuation expectations. There is largely a GAAP earnings impact as statutory earnings and capital generation were not materially affected by these experience trends.

Finally, we experienced a market-related decline in investment yields. The first two drivers are clearly the big ones and they are the most challenging to address. We've got a team in place that is evaluating approaches to address this situation, and I am currently spending substantial time with this team and with outside advisers on this.

With respect to the reserve funding, there are several approaches being explored. These include refinancing as markets improve, reinsurance, or block dispositions while retaining the customer servicing and relationship.

With respect to the impact of higher lapses on GAAP performance on certain blocks of business, can't unlock GAAP assumptions; so here as well there could be potential for executing either reinsurance or block dispositions given the underlying statutory performance.

This is going to take some time to work through, and we are actively working on pursuing the best strategies and approaches in this area. We will complete the evaluation as quickly as possible and take the necessary steps to improve results going forward.

With respect to investment yields, we have seen some favorability emerge in the fourth quarter of 2010 and will continue to work closely with the investments team to take advantage of changes in market conditions, investing to maximize results. So there is clear work to do here, and we are deeply engaged.

Turning to Long Term Care on slide 27. We have taken important steps to improve all block performance and grow profitable new business; but we are focused on accelerating improvement going forward. Considerable improvement can be expected with the implementation of the 18% rate increase we have recently announced. That should add about $40 million to $50 million in annual premium starting in 2012.

However, more needs to be done over time to move the old block towards at least a breakeven performance level. We plan to be diligent and timely with actions to improve results toward this level over that period of time.

Our new business is performing very well, as we have learned, and we have also applied important lessons from our experience with the old blocks and implemented changes to our policy forms, underwriting, and pricing that have allowed us to achieve pricing expectations or better on these newer generations of product.

This is particularly evident in our underwriting approach. If you compare our underwriting guidelines to those of our peers you will see that we have been able to create a preferred risk pool through a tighter set of guidelines. We believe this has benefited our profitability from the perspective of improved claims cost performance.

Finally, we took action during this time period to protect profitability from the lower interest rate environment that developed by hedging long-duration Long Term Care liabilities. This has proven to be a very important performance driver over the past year.

Going forward, we plan to increase return on equity about 70 basis points in 2011, with that progression building from the impact of the in-force price increase in 2012.

Now let's take a close look at our leadership franchises and how our strategy translates to attract prospects for new business growth and profitability. In the past you have heard us talk about refining our specialist strategy. Today, Retirement and Protection is focused on three leadership lines of business where we feel we are competitively advantaged.

Each of these businesses has very attractive new business profitability characteristics, which we will discuss in more detail on the following pages. In Life Insurance we focus on what we term the Main Street Market and recently introduced competitive and more capital-efficient new products.

In Long Term Care, we are adding accretive layers of new business with strong ROE characteristics. And in Wealth Management we provide a valuable service proposition with an open architecture product line to independent advisers, to help them grow assets under management.

In terms of our market focus, our Retirement and Protection life company products are generally targeted to Main Street working families and near retirees in the middle and mass affluent markets. We see great opportunity in this underserved market, as it represents about 45% of all households. Our product services and distribution focus is targeted squarely at these consumers.

In the Life Insurance business we see a significant Main Street Market coverage gap. We believe these consumers are both underserved and underinsured, and we believe that Genworth is particularly well positioned to meet these Life Insurance needs and capitalize on the opportunity.

From a customer standpoint we also see growth in extending to adjacencies beyond where we have our greatest penetration to date, the under $500,000 policy size market. Specifically we are targeting increased presence in the mass affluent market -- policy sizes about $500,000 to $1 million in size -- through service and underwriting support enhancements.

Finally from a distribution perspective, our key growth driver in the life business is our ability to leverage our existing strength in the broker general agent channel where we are number one in the market in terms of total policies sold, and we are advantaged due to our underwriting strength and our low-cost structure. Going forward, we also plan to supplement our BGA strength by building additional strength in distribution channels like independent marketing organizations and broader affinity relationships to support continued growth.

In Long Term Care, favorable demographic trends and the rising cost of care continue to drive a growing fundamental need for Long Term Care insurance. As I mentioned earlier we have learned a lot from the 35 years in this market about what not to do and about what can be done.

We see potential opportunity to double the addressable market over the next several years, designing products and increase affordability and flexibility, as well as providing expanded wellness and care coordination offerings to increase overall value and adoption. We have a broad, industry-leading distribution network across specialist, independent, and affinity channels. We have gained significant benefits from our partnership with AARP, and we see good opportunities with our group product.

Now let's look at our Wealth Management business. In Wealth Management, I will provide three perspectives.

First, we are focused on a segment of the market where we are a leader. We provide services and an open architecture platform for independent financial advisers, as opposed to being a manufacturer of product. We differentiate on our service offerings and earn a fee based on the assets under management we get from the advisers.

We are the number two-ranked player in this target market referred to as Turnkey Asset Management programs -- or the TAMP segment for short.

Second, we are an effective operator. We have invested in a business platform that is highly scalable and will accelerate ROE with a limited additional investment and nominal capital needs. We expect further AUM growth and margin expansion from 17% to 19% that will drive return on equity growth.

Third, our Wealth Management business is highly complementary to our other businesses. It consumes limited capital, provides a lower risk form of fee-based revenue. These are characteristics that complement the insurance and spread-to-risk profiles of our other businesses in this segment.

In 2010 we delivered strong growth by adding over 400 new advisors and growing assets under management by over 30%. Going forward this franchise offers a very strong growth opportunity with increasing profitability.

To wrap, in 2011 we will make significant progress towards improving the profitability of the Retirement and Protection business. This is going to be driven by a combination of actions taken to improve our in-force profitability in life and Long Term Care as well as the addition of accretive new business layers in these lines with a target of 5% to 7% revenue growth in the insurance lines.

We will also continue to execute our organic growth strategy in Wealth Management. Overall, our target revenue growth for leadership lines is 6% to 8%.

In total, we would expect these actions to improve overall return on equity in the Retirement and Protection business by approximately 50 basis points in 2011 with additional steps in 2012. Now let me turn it over to Mike to spend a few minutes talking about our International businesses.

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

Thanks, Pat. We have a focused strategy in International, and each of our businesses is in a leadership position in its respective market. Our Canada and Australia Mortgage Insurance businesses have maintained solid performance throughout the global slowdown and subsequent staged recovery.

Despite facing a challenging economic environment in Europe our Lifestyle Protection business has seen strong initial recovery in earnings as a result of aggressive repricing and distribution arrangement restructuring actions we took in late 2009 and through 2010. At the same time we are facing some growth headwinds.

In Europe, consumer lending remains sluggish with few signs of improvement. In Australia, the high loan-to-value lending market has slowed significantly; but we expect improvement in 2011. While in Canada we expect a modest decline in the 2011 market from strong levels seen during 2010.

Looking ahead, our International business remains very well capitalized and continues to be a significant source of capital for the Holding Company. Going forward, we expect approximately 100 basis points of annual ROE improvement through 2012.

Now let's look a bit deeper, starting with in-force performance. Our International businesses have delivered ROEs that are accretive to Genworth overall and as self-funded growth, while being a strong source of dividends for the Holding Company. In-force performance was impacted to differing extents by the global financial crisis, as you can see here; but we have made significant strides towards improving earnings, ROE, and risk profiles.

Now let's look at each of these platforms in more detail, starting with Canada on slide 35. Our business in Canada has performed very well through a difficult period, benefiting from a diversified portfolio by book year, lender, and geography. Our average effective loan-to-value ratio has remained strong at 60%.

In addition, during 2010 the economy improved nicely; and we expect to see stability during 2011. We differentiate in this market by integrating ourselves in the lender's value chain and leveraging our technology and service capabilities. We see a clear opportunity to continue to capture share in this market.

As a result of the large 2007 and 2008 books maturing, our premiums will decline moderately during 2011. This will be partially offset by expected improvements in losses from ongoing economic stability, although our quarterly loss performance may be choppy.

Finally, our results during 2011 will be impacted by increased interest costs related to debt issuance during 2010. As a result of our strong profit generation, Canada mortgage insurance maintains a healthy capital position and in 2010 was able to return capital to shareholders by increasing the regular dividend by 18%.

Now let's turn to Australia. In Australia we have maintained our position as the market leader, with strong operating income growth. Our results were aided by economic recovery in Australia with stabilizing unemployment and moderating home price appreciation.

We took aggressive steps in the early stages of the financial crisis to reduce the risk profile and increase price in this market. As a result our portfolio is well diversified by book year and has a low average effective loan-to-value of 62%.

We continue efforts to selectively grow our share position over time with certain distributors, and we are also actively working on a number of fronts to expand the availability of funding to lenders, which remains an issue in Australia.

Going forward, we expect moderate growth in operating earnings from modest premium growth and improving loss ratios. We expect ongoing generation of excess capital by the business.

Turning to slide 38, we have received a number of questions about how we might be impacted by the recent floods in Australia. In short, based on current information Genworth does not expect a material impact from the floods.

We expect to see a short-term increase in delinquencies followed by a period of recovery as the local economy regains its strength. Our exposure is not linked to the damage done by floods, as our master policy specifically excludes physical damage.

Our exposure is linked to underlying economic conditions in affected regions. The Australian government is providing significant stimulus to and support for the impacted areas.

Turning to Lifestyle Protection, we provide insurance coverage on financial obligations such as personal loans or credit cards in the event of sickness, accidents, death, or involuntary unemployment. Lifestyle Protection's shorter tail and capital efficient and generative model complements the longer tail and more near-term capital consumptive model of the U.S. life companies.

Rising unemployment in Europe placed significant pressure on the LPI business. In response we aggressively repriced and modified our contracts in both new and applicable in-force policies. These actions combined with improving loss experience have contributed to sound earnings recovery and an operating margin improvement of about 300 basis points.

LPI maintains a strong capital position and it's in a position to return capital to the Holding Company on a consistent basis. Top-line growth will remain a challenge here. We are continuing to execute our previously announced strategies to increase sales by broadening our distribution focus and more effectively mining in-force books of business. Going forward, we expect annual ROE improvement of 200 to 300 basis points a year over the next two years.

So in summary you can expect five things from the International segment going forward. First, improving MI loss ratios, modestly in Canada with greater progress expected in Australia, with strong and stable ROE performance across both these platforms.

Second, continued improvement on in-force profitability in Lifestyle Protection with 200 to 300 basis points annual improvements in ROE. Third, that we will maintain leadership positions in Canada and Australia through new business growth rates at or above market levels.

Fourth, $350 million of dividends paid to the Holding Company during 2011. And fifth, an overall ROE improvement of approximately 100 basis points annually over the next two years.

Now let's shift gears and move to our financial and capital positioning. I will turn it back over to Pat. Pat?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

In 2010 we built on our 2009 progress with a number of actions that significantly reinforced our capital strength and flexibility, leaving us in a sound position going forward. Our International businesses are returning dividends to the Holding Company. We have sufficient capital and liquidity and maintain strong capital ratios.

We have refined a multiyear capital plan that supports ongoing organic growth, addresses 2011 and '12 debt maturities, and moves us to an optimized capital structure that gives us the flexibility to best manage our business mix. I'll remind you that we also did some sound hedging transactions over the past two and a half years, and the benefits of some of these show up as credit in our life company capital base.

When thinking about our capital structure over time we are focused on using capital in the most efficient manner that will create the most shareholder value. As we develop and update this plan we consider many factors including regulatory requirements, target financial strength ratings, desired leverage ratios for flexibility, and future sources of capital, including use of deferred tax assets which I will talk about in a little bit more detail later.

Going forward we plan to maintain appropriate capital levels across all of our businesses and are targeting approximately 20% leverage ratio by year-end 2012, down from the current 26%. As we develop material levels of capital for redeployment over time, we will look closely at returning capital to shareholders by reinstating a dividend or initiating a share repurchase plan.

Turning to slide 43, you can see from the left side of the slide that our International businesses remain a strong source of capital for the Holding Company, accounting for about 90% of 2010 dividends. In 2011, we are targeting $350 million of dividends from these businesses. These International businesses completely self-fund new business while returning capital to the Holding Company.

Looking at the right side of the page, we build our capital strategies looking out over a multiyear basis. At the Holding Company level, our capital allocation focus is on delevering and enabling flexibility in managing our portfolio of businesses going forward. As I mentioned before we are targeting a leverage ratio of about 20% by the end of 2012.

We have successfully built up cash buffers at the Holding Company, where we keep about 24 months of interest coverage, and at our operating companies. Let's take a closer look at operating company capital ratios on the next slide.

As you can see, at the operating company level we are above target capital ratios in each of these businesses as we are generating excess capital as compared to regulatory requirements. However, one important distinction that we make is the difference between the amount of excess capital on hand -- as defined by the amount over certain capital thresholds including rating agency and regulatory requirements -- versus the amount of deployable or discretionary excess capital in each business after earmarking designated amounts of this excess capital for risk buffers or completion of reinsurance and dividend strategies that benefit the enterprise.

Key point here is that we keep capital buffers that are appropriate in the context of the current market environment while funding our operating company dividend expectations. Let's take a closer look at our capital allocation approach on slide 45.

Our framework for thinking about capital allocation takes into account a number of factors. The basic assessment criteria include, one, Holding Company capital availability and operating company requirements including capital buffers. Two, the impact on financial results including earnings per share, book value per share, and total franchise value that any decision would have. And third, the impact over a range of time horizons. We are careful not to make any decisions that might be beneficial in the near term but would negatively impact value in the medium or longer term.

In addition to business impacts we consider other constituents, most notably rating agencies and regulators. Rating agencies value capital cushions and diversity of cash flows and are primarily concerned with future statutory earnings power. They have communicated to us that they would not look favorably upon share repurchases in the near term and are supportive of our plans to reduce leverage over the next couple of years.

The priority of regulators is the protection of policyholders, and they look favorably on any actions from a capital perspective that protect against downside risk.

So as we make capital allocation decisions, we link the criteria in our framework with the considerations of these additional constituents. There is an important additional consideration, and that is in the area of tax assets.

On slide 46 we have an area that has not gotten much attention in the investor community, but it is important given the size of this asset and how it has increased in size over the past two years.

Our deferred tax asset factors into our thinking on capital. We have a $1.9 billion deferred tax asset on our balance sheet which includes about $1 billion from our life business and about $900 million from our nonlife businesses. This asset has been fully recognized on a GAAP basis, and this is based on our projected ability to utilize net operating losses over a multiyear basis in the future.

With the deferred tax asset, we are able to create value in the form of additional statutory capital by utilizing the losses. Based on current projections, we estimate the present value of the deferred tax asset at approximately $1.1 billion. However, this value is clearly dependent on future income projections.

Now at this point we estimate the majority of the $1 billion life loss will be utilized over approximately seven to eight years and that the majority of the $900 million non-life loss can be utilized in about four to five years. Maximizing the capital benefits of the non-life loss does involve managing our global mortgage insurance businesses as a single unit. Without this change utilization would take place over a longer time frame, reducing the value of this asset.

The speed at which we can utilize the asset, and therefore its present value, could be impacted by changes in earnings trends. In this connection, it is not uncommon that we get a question about splitting off the U.S. MI business or further selling down our controlling position in Genworth MI Canada.

Note that were we to sell the U.S. MI business or remove other income streams that can consume tax assets, a significant portion of the value from this asset could be lost.

Now let's summarize our capital allocation priorities, which you will see on the next slide. Here you will see our capital allocation priorities both today and looking to the future over the next three to four years.

Today, we are focused on meeting regulatory requirements and reducing our leverage ratio to 20%, pursuing an organic growth strategy. Paying down the debt leaves sufficient funding at the Holding Company level but does not currently provide capital to return to shareholders.

Once we have reduced our leverage ratio we will shift our priorities to the right side of the slide. And as we develop material amounts of capital for redeployment over time, we will look closely at reinstituting a regular dividend or share buyback program.

To wrap, we have made solid progress to enhance capital flexibility and to meet Holding Company obligations. As we move forward there are a number of considerations, including financial considerations like the value of our deferred tax asset, that influence our perspective on capital.

We expect continued strong dividends from the International segment and to decrease overall leverage to provide more flexibility to Genworth. Over time, we expect to have sufficient excess capital to enable a return of capital to shareholders.

With that, I will turn it back to Mike.

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

So we have discussed the actions we have taken and continue to take to improve the profitability of our businesses, add to our financial strength, and rebuild shareholder value. To wrap up I would like to talk more generally about our overall direction, our business mix, and additional metrics we use to measure our progress.

This is the framework we use in our ongoing evaluation of our business portfolio. It incorporates a range of strategic and financial considerations and is designed to drive value-maximizing decisions. Clearly some aspects of our current business mix reflect our history of being sold to the public market in successive offerings by our former parent.

But the key question now is -- what is the most value-creating business mix going forward and over what period of time?

From a strategic perspective we evaluate the attractiveness of each market and business line on a stand-alone basis, along with our related competitive advantages. We also consider any commercial synergies with our other businesses, such as a common distribution channel or common service platform, as well as the outlook for each business from a regulatory and public policy perspective.

From a financial perspective, we are focused on capital allocation and evaluate each business's current and prospective returns, its growth and risk profile, and any financial synergies it creates. For example, in investment strategies, or the ability to access capital, or the ability to capture the value of tax assets. Ultimately, we weigh all of these considerations with the objective of maintaining a business portfolio that is value maximizing for our shareholders looking over multiple time frames.

Regarding business mix, some investors and analysts have suggested splitting Genworth into two pure-play companies. We have carefully considered this approach and our view today is that our business mix makes sense in the near term for several reasons.

First, markets are in various stages of recovery. And as recoveries continue, the performance and resulting value of some businesses improves.

Second, we are executing plans to improve the profitability of underperforming businesses which we believe will enhance value over the medium term.

Third, there is significant financial synergy value in our portfolio today from deferred tax asset and the International dividend benefits. This value could be destroyed if we were to split the Company now.

Fourth, we are working towards a debt-to-capital ratio of about 20% by 2012. This optimized capital structure increases our options in managing or reshaping our portfolio.

In sum, based on a comprehensive evaluation with input from external advisors, we believe that greater value will be created for shareholders by executing against our current strategic plan. If at some point in the future, the balance of consideration shifts such that splitting the Company into two separate pure-play entities or some other strategy becomes the best path to create shareholder value, we, working with our Board, will take appropriate actions. We will not shy away from it.

Looking at our strategy as we move ahead, we plan to continue our specialist insurance focus. As we evolve our value propositions, we think about our businesses in two broad groups -- Protection and Retirement, and Global Mortgage Insurance. We plan to move towards this business segmentation by year-end.

This alignment allows us to sharpen our focus on common aspects within each group of businesses while taking advantage of current financial synergies, such as the tax and dividend flow considerations that Pat discussed.

On the Protection and Retirement front, we have narrowed our focus to concentrate on our strengths, with some more refinements under way. On the Mortgage Insurance front, we are the only global player today, and this has brought commercial advantages as we transfer capabilities and know-how across markets and also as we work to drive recovery in the U.S platform.

To measure our progress against these strategic goals we track a set of enterprise metrics to establish accountability. First, we are targeting growth in operating revenues in the 2% to 3% range, with 5% to 7% growth in insurance products being offset by flat mortgage insurance revenues.

Second, we plan to expand margins across several of our businesses. You have heard some specifics surrounding this today.

There, we expect to pay down $600 million of debt on a net basis and reduce our leverage ratio from 26% in 2010 to about 20% at the end of 2012.

Finally, excluding U.S. Mortgage Insurance and any impact from potential life block transactions we target 30 to 60 basis points of ROE improvement annually. Over time, there is potential upside to this level of improvement from improved U.S. Mortgage Insurance performance, as well as any potential old block transactions.

These metrics will allow you to track our progress against our plan; and, of course, there are also many more granular metrics in place in each business unit.

To wrap up, we have taken and continue to take significant actions to address the challenges created by the financial crisis and its aftermath. From where we stand today, we believe we have put most of these challenges behind us.

We are dealing head-on with the challenges in U.S. Mortgage Insurance. We took a significant additional step this quarter with our reserve strengthening and continue to work to accelerate the transition here. Importantly, U.S. MI capital issues are manageable, given the lines of defense we have put in place to maintain flexibility and support our ability to write profitable new business.

In sum, we are intensely focused on restoring underperforming business lines to acceptable return levels for capital allocated as quickly as possible, while sustaining good performance in our other business lines. Thanks again for your time this morning, and now we will open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Questions to three of you. Mike, just to start off on the restructuring, you mentioned if the balance shifts you would reconsider potential restructuring, divestitures, etc. What would that balance shift be?

And B, just so I understand the deferred tax asset better, how much could be lost by spinning out the MI businesses as a whole?

Second question is to Kevin. Just very simply, if we exclude the reserve build in the fourth quarter, the benefit ratio in U.S. Mortgage Insurance was still an elevated 224%. The question is -- I think recently, maybe a few quarters ago you had said or management had said you expected to get to breakeven by 2011.

When do you think you can get to breakeven? What might be a reasonable time frame to expect that?

Then lastly for Pat, on the Long Term Care insurance, you mentioned that you are pricing to a 15%-plus ROE. What gives you that confidence that you are going to get it, given the difficult historic experience?

Then the second part to that question is, you also talked about talking to reinsurers or potentially selling off closed blocks. Is there much interest out there? Who might be interested? Thanks for responses to all those questions.

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

Thank you, Andrew. Let me kick off. First, as I said, when we look at our current business mix there are four considerations in continuing the near-term focus. I said one of those was that you have markets in various status of recovery, and that those recoveries would lift performance and value in certain business lines.

Second, that we are executing plans, as you have heard about today, to lift the performance in certain business lines. Some have been on a recovery track. Some clearly need to do better. But either way, until we get them where we want, we view them as underperforming.

Third, I noted the financial synergies; in other words, the value of the cash coming from International into the Holding Company to reduce debt. And with that debt reduction it gives you much greater portfolio flexibility to look at the businesses that are in your portfolio or how you move things around. And you have the consumption also of the deferred tax asset that Pat walked us through.

So you see all of those things coming together. Now, to therefore answer your question is -- something would have to shift in that framework to say we need to move in a different direction; and I will come back also and talk about time period.

So if you didn't see some certain recoveries and didn't expect some of the performance, if you didn't see the same potential for allocating capital, whether it is new business or bringing up the in-force in lines, if you had a different view on the financial synergies that I just articulated, or the time frame of achieving them, all of those could cause to reevaluate.

The way I think about it is this, and I want to leave you with two thoughts on this front. First, you can't get stuck. As I say, get your feet stuck in concrete, thinking about the world or business mix a single way and saying this is the way it is forever going to be. Markets move; competitiveness moves of individual businesses; attractiveness of individual markets move. And where you want to allocate capital on a relative basis moves. You have to be open to all of those changes as you think about where to allocate capital and how to shape a business portfolio.

Second is you have to think about more than a -- within one time period. I have had plenty of inputs, plenty of advice, as you can imagine. But some of that is limited to a six- to 12-month time period.

As a leader it is easy to manage in the short term. It is also to manage saying everything is in the long term, because long term can be way out.

What you really need to do is think about the short term, the medium term, and the long term and look at all of those time frames, and do so with rigor, facts, be diligent in doing it. And as I said earlier you should use external advice to make sure that you are not being myopic or not getting appropriate insights on that front. And that is the way we think about approaching business mix, portfolio. And if you think that there is a different mix you want to move to, what is the appropriate timing for that? So hopefully that is helpful on that front.

Andrew Kligerman - *UBS - Analyst*

It is, Mike. Just to be clear then, it sounds to me like you need a 12 months to make sure everything is on track before you even think about a balance shift. Again I just didn't get a response on the deferred tax asset; how much would you stand to lose of that if you were to spin it out?

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

Well, let me just come back to your point and then I will let Pat go into the taxes for a moment. I talk to many of you about the question where people said -- is this a short-term value creation opportunity or is it a medium-term value creation opportunity, is it a long-term? Basically when you look at the time it takes it a few of these things to play out, this is a medium-term focus and an intense execution focus that I have and this team have.

We tried to give you some of the time periods of some of these factors to, and the rates of recovery, so you can see that thinking. So that adds a little more color to your last comment.

Pat, would you like to pick up on the deferred tax question for Andrew?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Sure. In very straightforward terms if there were -- well, first of all, a significant portion of the nonlife deferred tax asset is of course attributable to the U.S. Mortgage Insurance business and the losses over the last couple of years. If you were to change control of that company, new owners would not have the financial benefit of the ability to utilize the tax loss carryforwards the same way that we do. And that is a significant difference in the way a new owner would look at pricing the value of that business versus the way that we would look at it creating value by utilization of the tax loss carry-forwards, material to a pricing.

Andrew Kligerman - *UBS - Analyst*

Got it.

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

So let's shift. Kevin, do you want to pick up on the MI question, please?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Yes, Andrew, you are right; it was about a year ago now at our previous investor call that we suggested at some point -- we initially targeted a mid 2012 type turn in the business. As you can understand, whenever we provide some type of outlook like that it is based on certain assumptions. What we have all seen is a lot of the assumptions we based on those have just not played out.

There has been a lot of volatility in this market. The many variables that continue to impact the mortgage insurance market I think are just too difficult for me to provide you with a short-term view.

So I guess the way I would answer it more directly is -- excuse me, I said it was in -- mid this year is what we said a year ago, mid-2011.

Where we stand right now is we have made strong improvements, we think, to help us accelerate the turn. But I just can't -- simply can't give you a call.

The perspective I would share is, as I ended up my comments today, is as the performance of the new books begin to outweigh these '06 to first-half '08 more poorly performing books, that will really be the point -- and it's a pivot point is, and the transition point is.

And once you hit that point I think you will see that our returns will accelerate out of that point, once we get through there. So again, can't make the call right now. I think that is kind of consistent with some of the views from my competitors at this point in time in terms of the way they have responded to that. But we -- I wish I could give you a date, but I simply can't.

Andrew Kligerman - *UBS - Analyst*

Fair enough.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Okay. I will take the questions on Long Term Care and life. I should clarify that the 15% return is both our new business return that we are pricing for and also it is the return that we are seeing on the newer blocks of business that we have written over the past seven to eight years, since the early 2000 time frame.

Andrew Kligerman - *UBS - Analyst*

And that has been consistent?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

That has been very -- yes, the loss ratios have been very consistent over the last couple of years with mortality and morbidity in line. We are seeing stability in the investment yield due to the interest rate hedging, so we feel very good about that.

When you look past that we do have a significant amount of capital tied up in the older block of business. We are taking significant rate actions and we are continuing to -- and we will continue over time with a sense of urgency to address the returns on that business, pulling that up as it runs off and becomes a smaller part of the portfolio. Okay?

Andrew Kligerman - *UBS - Analyst*

Perfect.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Then with respect to the life and the closed block transactions, I mean I look at this from the perspective of somebody looking at structured transactions or a reinsurance buyer and separate out, I will say, the GAAP gain and loss timing considerations that we have relating to our locked in assumptions.

And I say these blocks are pretty good blocks of business with nice cash flows that are performing pretty consistently from an insurance experience perspective. So I think there is opportunities as markets improve and investors are looking for yield to develop transactions and opportunities which would achieve the results that I have outlined. It is not going to be something that happens overnight; but I think as the markets recover clearly we have opportunity to do that.

Andrew Kligerman - *UBS - Analyst*

There is demand out there for these types of blocks of business?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

And There is demand for loan duration yield generally, yes. It is finding a way to meet that with a structure.

Andrew Kligerman - *UBS - Analyst*

Would you anticipate any major capital charges if you were to go through this?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

It is too early to say. I wouldn't rule that out, but it is too early to say.

Andrew Kligerman - *UBS - Analyst*

Okay. Thanks a lot.

Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Good morning. Andrew touched on a lot of my questions, but there is one in particular I wanted to follow up on. You talked a lot about the DTA considerations inherent in any potential spinoff of USMI. But I am curious if there is any other gating issues related to that.

For instance, are there any agreements with the GSEs that would make it difficult to spin that off? Is there anything buried in the GE tax matters agreement that would pose a hurdle? Or are there any agreements or discussions you have had with US insurance regulators that would make it difficult to spin that? Thank you.

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

Donna, this is Mike. Let me give you a couple perspectives on that. Having gone through that process, when we went public and every type of screen you can imagine -- in other words, capital markets screens, rating agency screens, regulator screens on any time you go through a separation.

So as you noted, you look at the cash value of the deferred tax asset; so that is one point. Secondly, just recall that we hold our debt at our Holding Company level, and part of our whole thrust of delevering to what I call a sum of the parts -- because you get certain synergies in the amount of debt. The coverage ratios you have is when you get to a sum of the parts level of leverage, which would be about that 20% level, you have flexibility.

Now there is always a renegotiation around those types of things. But now you are just at a lower debt level so that it fits with that flexibility option that you want to have. So I would call that a gating factor.

There are always reviews that you have with regulators, with rating agencies. We saw this when we took Canada public too, about what do you want the capital structure of an entity to be? What is the inherent capital in an entity? What is the flexibility to have dividends if you do want to take them to a holding company, if there is a degree of debt?

So all of those things I can't speculate on, but that is certainly part of the process. The thing here is, again, with the philosophy of we will manage our portfolio of businesses for shareholder value over time, you have a pretty experienced team who has gone through, shifting portfolios over time. Looking at things -- such as when we took Canada public during a stressed environment -- that were very well executed.

So if the appropriate time comes with a thorough thought, thorough and thoughtful screen and assessment of shareholder value-creation options, you have a team who can execute. And I will leave it at that.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay, thank you. The other question I had is kind of a detail question but I want to understand it better. In terms of the moving -- you refer to it as the non-cash preferred securities exchange transaction that increased the USMI stat capital by about $220 million. And you did that without impacting the capital of the LifeCos or the HoldCo, which is a nice maneuver. But how? Can you explain exactly how you were able to create the capital at USMI without impacting capital elsewhere?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

This is Pat. I will take that. I guess the key point is we recognize that we had the flexibility to strengthen the USMI capital position without impacting the capital plans either for the life company or the Holding Company or other rated Genworth entities. We did this -- basically we had securities held in a non-rated affiliate and had the flexibility to transfer those down into U.S. Mortgage Insurance, get regulatory capital credit in North Carolina.

So it was available to us. We just decided it was prudent because all of the other rated entities had very strong capital positions relative to our targets and we could do it without impacting the Holding Company; and that is probably the key point.

The second thing that I would say is in terms of the regulatory credit that we did take. We did have those securities valued by the NAIC securities valuation office. So it is a very good estimate of market value and therefore a reliable carrying value in the USMI companies. Okay?

Donna Halverstadt - *Goldman Sachs - Analyst*

So one follow-up. So they paid significantly less than the carrying value that you are recognizing in GEMICO?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

No, they were transferred at the carrying value that we're recognizing, which is a market value.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Mark Finkelstein, Macquarie.

Mark Finkelstein - *Macquarie Research - Analyst*

Good morning. I've got a few things. I guess just firstly, we talked about the VA business; you put out a press release on that. Pat talked about the life business and potentially looking at reinsurance structures.

But early in your comments, Mike, I think you mentioned something about a supplemental business that was still under review. What was that business that was still under review, just for clarification?

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

Yes, if you look at I think it was probably the end of 2009 or 2010, we declared two areas as targeted, where we would narrow our focus and critically look at risk, competitiveness, and returns. So you had fixed annuities in there; you had variable annuities in there; you had med supp in there.

So we have gotten through the annuities reviews. We are completing the review on the med supp line.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. Got it. I guess Kevin, just a couple questions on the MI business. One is you are assuming loss mitigation in 2011 of $400 million to $500 million. I guess in the fourth quarter we had $126 million of benefits, and that number has trended down over time. I think your comment was that it will continue to trend down over time.

So I guess if we look at the $126 million, why should we feel comfortable that $400 million to $500 million is an achievable number in 2011? Particularly given the commentary that we think we are well reserved for the emerging claim patterns that we have been seeing.

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Yes, Mark, I think about it on three fronts. One, we have a consistent track record of delivering on loss mitigation performance. It was nearly $850 million a year ago. It was -- we didn't hit exactly what we set out to accomplish in 2010 but came in about $740 million. So I will start with saying we set aggressive targets for this and we have gone out and achieved it.

Secondly, as I showed you on the page in the presentation, we really have segregated what we think the opportunities are. We have resources and plans in place to aggressively go after that, and go after it and get it. One of the things that gives additional opportunity besides just the existing delinquency exposure you have today is you can go after new delinquencies that have developed -- and one should expect them to develop on a go-forward basis.

So as I mentioned we have targeted strategies to move upstream and get to those borrowers sooner and work with the servicers to get to those borrowers sooner.

Secondly, the servicers are actually beginning to adopt some of the best practices from those who have performed much better. There continue to be new modification programs that are really in their infancy and haven't gotten their legs yet; and we expect something to come out of that.

Additionally, despite all the bad rep and press you continue to get from HAMP, HAMP trials continue to go up. In December, HAMP trials were up 40,000 across -- not -- as reported across the country. So you continue to have some benefit there.

We still have some opportunity in terms of claims management that continues to run through our numbers. And then lastly we've got a little bit of additional benefit on a go-forward basis from previous settlement activity that we have achieved.

So all-in, it is still going to take the performance from those servicers and get some traction on the plans; but we feel really good about what we have. We have got the plans and resources in place to go after it. And we are not starting from scratch; we have been doing this for several years.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. A clarification, just on the risk to capital. I think you said that in 2011 that you would expect to exceed the 25-to-1 threshold. Was that just at GEMICO or was that in aggregate, which has a lower risk-to-capital ratio?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

I think when we would expect under various scenarios pressure across both of them. So it is one of the things, the impetus that led to going out and securing the waivers. So there is certainly pressure.

More pressure in GEMICO because it's -- but I think we would expect them both to be pressured in the year. Then there is some upward pressure on that going forward, but we have got some nice flexibility in place to be able to deal with it and be able to continue to write good profitable new business.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay, then just last question. Pat, on Long Term Care, if I adjust for the reserve increase in the quarter, my loss ratio is still elevated relative to historical levels, I believe. I guess can you just talk about the patterns you are seeing in the Long Term Care business and whether we should interpret that as any deterioration, just random and fluctuation? How should we think about that?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

I will ask Buck Stinson to take that question.

Buck Stinson - *Genworth Financial, Inc. - R&P Insurance Products President*

Yes, Mark, I can give you a little more color on the loss ratio in the fourth quarter. The reported loss ratio was 73%, and that included the $20 million of reserve strengthening. That was a result of our annual actuarial review of reserves.

That was in our disabled life reserve, just to give you some context. That total reserve is a little over $3.5 billion. So there was $20 million of strengthening in that area.

When you back that out the fourth-quarter loss ratio was approximately 67%. Now on an annualized basis -- and that is what we are managing the business, with guidance on an annualized interest adjusted loss ratio between 60% and 70% -- for 2010 including that reserve strengthening our annualized loss ratio was 66%.

For 2009 for reference, that number was 65%. That reserve strengthening that erosion we are seeing isolated primarily in the older blocks; and that is one of the reasons that led us to request an additional 18% rate increase on those older blocks of business.

And going forward we would expect to manage our total annualized interest adjusted loss ratio well within that 60% to 70% range.

Mark Finkelstein - *Macquarie Research - Analyst*

Okay. Thank you.

Operator

Joanne Smith, Scotia Capital.

Joanne Smith - *Scotia Capital - Analyst*

Yes, good morning. I have two questions. Can you please just get a little bit more granular on the sand states USMI experience and the trends that you are seeing there?

Second, I was just wondering if you consolidate the mortgage insurance businesses into a global mortgage insurance entity, is there any risk to the Canadian and the Australian capital ratings or capital strength ratings as a result of that? Thank you.

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

Yes, let me pick up with the first one. This is Mike, then I will hand it off to Kevin. Understand that we have very distinct legal structures. If you look at where our International MIs stand versus our USMI, these are totally distinct. And that is something we communicate to each of the platforms, each of the regulators; and nothing changes there. Now --

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Joanne Smith - *Scotia Capital - Analyst*

So it's just on a reporting basis, Mike?

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

Yes. So that you can sit there and look. So that you have the opportunity to look at total global mortgage insurance exposure; look at the dynamics of it; look at the profit dynamics of it; the return dynamics of it; different in patterns.

By moving towards that segmentation we think you get better visibility and granularity on that basis. So it will not impact those ratios in my mind at all because of the separateness in the structures that we have established.

So, Kevin, you want to go in more depth on the sand states, please?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Yes, sure. I guess I would probably reference you, Joanne, back to page 15 in our discussion this morning. What that really shows you is just to articulate again -- is what the delinquent RIF that is currently in some form of foreclosure, the levels that we have that reserved against as a percentage of overall risk in-force.

In the quarter, you continued to have some uptick in foreclosure development in a couple of the sand states. But overall at the same time it is just our view that these are going to be harder to cure. You are going to have less loss mitigation opportunities in those compared to where we were earlier on in the cycle.

If you think back on it, as we went into 2009 and we saw an acceleration in our loss mitigation benefits that was coming from both rescission activity -- rescission activity that was really geared towards a lot of the problem loans and the problem loan types that were originated in those sand states -- coupled with the growth in loan modification benefit that we really saw across the country and in the sand states as well. We reflected that in our reserve calculations.

What we have experienced really beginning in the third period and accelerating a little bit more in the fourth quarter is simply, number one, due to our process, rescission benefit and rescission experience was trailing off. And then loan modification trends in those areas also began to trend down.

So now we have taken that into our account, into our reserve calculations. So we benefited from it back at the time when our experience demonstrated that we were getting that help; and we have had to correct as we have seen that experience shift the other way, as we have gotten through the lion's share of some of this loan modification.

So I guess that is how I would characterize what is going on there. You can see that it is still a pretty significant percentage of our overall reserves, our base in those areas, those plus Michigan. A lot of the late-stage stuff is really down there.

But we continue to have cures coming out of there even at this point in time. And that is really a lot of the basis for the support we have and why we think we are reserved at the appropriate level.

Then lastly, when I think about what we have done I will just reiterate. We really went back and strengthened reserves on that oldest, later stage stuff. The new books aren't really feeding the beast anymore there. So the earlier performance on early-term delinquencies are improving. So you are getting some benefit there; you're not adding more to the bucket.

And then the stuff in the middle is -- although some of it continues or we saw some continued transition to foreclosure on the period, we are still getting some cures out of that.

Joanne Smith - *Scotia Capital - Analyst*

Can you just compare Florida from the third quarter to fourth quarter, Kevin?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Yes, I would tell you on a foreclosure start basis it was actually down in the fourth quarter. I think we saw some spikes in the third quarter that may have been attributable to some of the servicer activity to push things through back then.

Just about the point that that all happened and you had the big spike in overall foreclosures in the fourth quarter, everything got frozen when you had all the robo-signing and other issues develop and materialize in the marketplace. So I think things were -- overall in Florida our foreclosure development was down.

Joanne Smith - *Scotia Capital - Analyst*

Okay, and so you have seen an improvement since the robo-signing and all of that stuff has occurred. That market has started to move again?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Well, when you say move again, if you would clarify that.

Joanne Smith - *Scotia Capital - Analyst*

Go through the process more (multiple speakers).

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Great point. Certainly claims weren't at the same level. Claim submissions that we saw in the third quarter. We think things are starting to loosen up again, and so one could expect continued move through and liquidation of that inventory.

Joanne Smith - *Scotia Capital - Analyst*

Thank you very much.

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

You're welcome.

Operator

Tom Gallagher, Credit Suisse.

Tom Gallagher - *Credit Suisse - Analyst*

Wanted to shift gears away from MI for a minute on to Life Insurance. I guess this is for Pat. I just want to understand what was driving the strong improvement in risk-based capital at year-end up to 390%. I think it was 365% at 3Q.

Was there a capital contribution there? Was it earnings driven? That was my first question.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Yes, there were two factors. The first one was earnings; we did see better investment earnings. We saw better markets, which improved the variable annuity earnings during the quarter. We saw good mortality. So statutory earnings did improve and that reflected a big part of it.

I would say about half of it resulted from the BlackRock rerating of structured securities. One of the things that we have been highlighting over a period of time is that our CMBS investments are to a very large extent super-senior investments in terms of structuring, with a lot of coverage and subordination built into them. When BlackRock did the analysis and the capital requirements were reset, we saw a pickup of about 11, 12 RBC percentage points based on that factor alone.

So you combine the two; and the only third note is no capital contribution. It was all performance and reflecting the rerating of the securities.

Tom Gallagher - *Credit Suisse - Analyst*

Got it. Then, Pat, also curious if I look at through 3Q, you were losing about $100 million on an operating basis in terms of Genworth Life. Now I assume that that is reversed, or at least you didn't lose money on an operating basis in 4Q.

So first question is, what was behind on an operating basis losing money through 3Q?

Also, I guess last question I have is -- you commented on what is going on on a GAAP basis for Long Term Care. Has that been impacting your stat results at all?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Okay, when you talk about an operating basis, to clarify, you're talking about statutory operating earnings?

Tom Gallagher - *Credit Suisse - Analyst*

Exactly. Yes, so $101 million loss through 3Q.

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Yes, so what you will see if you look at life and Long Term Care and fixed annuities is that, whether you are talking about statutory or GAAP earnings, earnings tend to emerge in a very predictable sort of way.

The one thing that does on a statutory basis, because of the reserving requirements, cause our operatings to swing around is the variable annuity valuations and the way the statutory reserving is set at very conservative levels. So what actually happens on a statutory basis is there is more volatility to that even than there is on a GAAP basis. So we see declines in earnings when markets decline and we see robust recovery in earnings when markets improve.

So we saw a little bit of that in the third and in the fourth quarter. I would underscore that when we look at some of the strategic decisions that we have made overall, in terms of emphasizing the attractive returns on Life Insurance business and Long Term Care and wealth management, and shifting more of our capital allocation in that direction, that does lower that risk profile and improve the stability and reliability of earnings growth both on a GAAP and statutory basis.

So I thank you for asking that question, because that is an important point. Okay?

Tom Gallagher - *Credit Suisse - Analyst*

Sure. Then on Long Term Care, can you talk about -- you talked about how that has been developing on a GAAP basis, which sounds reasonably within a narrow band. How has that been developing on a statutory basis?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

I would say on a statutory basis that the reserves are set on a prudent or a more conservative basis, so they are larger. What happens is they release over time, so we have an interaction of larger statutory reserves set up on the new business, more of a statutory release on the old business.

But I would say that similar to the GAAP returns, Long Term Care profits regardless of the basis that you measure them, given the stability in our loss ratios, are going to be fairly stable over time at least on an annual basis.

Tom Gallagher - *Credit Suisse - Analyst*

So you are not seeing any material degradation of profitability due to LTC on a stat basis right now?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

That's correct.

Tom Gallagher - *Credit Suisse - Analyst*

Okay, thanks.

Operator

Ed Spehar, Bank of America Merrill Lynch.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Thank you. A couple questions. I apologize. I joined this call late as I was on another earnings call, but I guess that either despite the additional USMI stats that you have provided on this call, I am sure I'm not the only person who is confused by the fact that this far into the housing downturn that the U.S. MI loss is up.

Just putting aside all the pieces, but just very high level, the U.S. MI loss is up 26% in 2010 versus 2009, which when you compare to the other MI companies who saw dramatic improvements in the loss. Now understanding you might argue they did worse than you in the prior year, and that may be true.

But you have always made the case that your underwriting was better, your risk selection was better, and that you would always expect to have better results. So I am just a little bit confused by why it seems you guys are playing catch-up right now on some issues versus some of these other companies.

Then I have one question on the life side.

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

Kevin, you want to take that, please?

Kevin Schneider - *Genworth Financial, Inc. - SVP, USMI President & CEO*

Yes, good morning, Ed. Ed, I guess to start with -- and if you go back and look at our performance through the entire cycle, compared to our competition, I think that you will see an overall stark contrast even given the provisioning and the reserve building that we have done in the latter half of this year, between us and their performance.

So number one, I do believe that the difference in portfolio that we had, a portfolio that -- as I have shared before -- had an Alt-A concentration at the end of the day that was like 3% of our overall portfolio base, compared to others that were multiples of that number. A portfolio that had a much shorter term ARM percentage at about 2% of our overall portfolio, which admittedly has performed poorly for across the market, compared to everybody else in multiple fronts. A portfolio that had only 2% of our overall RIF that is currently based in bulk.

So number one, I do think that portfolio and our underwriting characteristics have been a big difference. And that is something, as you think about going forward and where we are today, following the strengthening that we did, will continue to benefit us as we roll forward.

Secondly, the other big thing -- and you referred to in terms of the way you described the timing -- is simply the timing of our rescission experience and the timing of our rescission approach. We had a different process, and I talked about it a little earlier, so I am sorry if you didn't get to hear the whole thing.

But our process was to go after loans at the point of delinquency, investigate them, and eliminate that risk if it was rescindable risk, before it had the opportunity to age through and continue to build the reserves and then ultimately investigating at the claim point, which is what some of our other competitors do.

So we went after it early. We got the benefit of that early. We got those rescissions and the benefit of that loss mitigation calculated into our reserves going forward early. And now we have put a lot of that behind us.

In the reports that I see that are published on a monthly basis by some of the pure-play competitors, they continue to have benefit from large numbers of rescissions. Those rescissions now are being made on loans that are being submitted for claim. So they have had the opportunity to season and to build up big reserves. So there is clearly a timing and a process benefit that makes it sort of difficult to compare us to others that had a different process.

I think the loan modification experience is going to be an experience that is consistent across the entire sector. The same servicers that are struggling, that we're not getting a lift from, that we expect are impacting others in the industry as well, so that is a number that has trailed down in the fourth quarter and drove a lot of the strengthening that we have assumed going forward.

I guess just to put it in some perspective for you, we modified over -- nearly 36,000 loans last year, and that number is going to be -- and we have incorporated this into the way we thought about our provisioning and our calculation for our reserves -- that number is going to be in the low to mid 20s.

So just directionally that is the type of impact that we have incorporated in trying to get ahead of these trends. I still firmly believe at the end of the day we're going to have differentiated performance.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay. Just one other question, I think for Pat, on the life side and following up on a prior question on statutory. Did you -- I'm sorry if I missed this. But did you give any indication of what you think the normalized statutory operating earnings would be for the life business?

You have been losing in Genworth Life, what was it, $80 million to $100 million a quarter or something the last few quarters?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Yes, what I would say, -- and yes, I will give you an idea of what that looks like. But I want to step back for a minute and talk about what we have done in the U.S. life companies over the course of the last year. One of the things that we had laid out was an emphasis in terms of managing the investment portfolio and diversifying risk and minimizing loss exposure. And we did that very successfully.

What that did was it gave us more capital to work with. And when you look at where we put that capital to work -- and it did impact the statutory earnings in the year, but the flip side of that is it substantially increases our expectations of statutory earnings in future years.

As we built our life sales up year over year 40%, our Long Term Care sales 30%, there is statutory strain associated with that business, and that builds good future statutory earnings power, which is enabling more capacity to grow and create distributable earnings in the future for the plans that we had outlined before.

So we essentially purposely increased sales to take advantage of the market opportunity that we created; used statutory income to generate that. We got a -- I will say a statutory income result which is lower than our usual run rate. And looking forward we would expect that to return to more levels that are more consistent with our historical level.

I might add that here is where the deferred tax asset is also important. Because in the near term our pretax statutory income is going to be the same as our after-tax statutory income, so that is going to assist in capital generation.

So we think that we have actually built back our market share, spent some money wisely, and created capital capacity going forward which is going to enable us to grow this business and produce the value propositions that we talked about today.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay, just two follow-ups. If you -- first of all, how long will pre-tax after-tax stat operating earnings do you think be the same? For how many years?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

I said that we would have most of our deferred tax assets utilized within the next seven to eight years. So we are going to be utilizing them to offset emerging earnings and taxes on that for that time period. That is what you should take away from the earlier comments.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay. Then secondly, if you stopped writing new business today, how much would your statutory earnings go up?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

Probably about $400 million.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay. So what when I look back at -- I don't have the last five years in front of me right now. But what was this -- what did this business used to do in terms of stat? During the good times, wasn't it more like $600 million to $700 million of stat earnings?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

I can't speculate on what it was, pre-2007 time frame, at this point. But I think the important points are what we are doing right now in terms of utilizing our capital position to enable profitable new life and Long Term Care business growth, and how that enables us to continue to build value going forward.

What I will do for you is -- since I don't have them immediately available -- I can check on the pre-2007 numbers and call you later and let you know what they are.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Yes, I think this could be -- I guess this is from an outside service, so it could be wrong. But I just pulled these up and it looks to me like it was $600 million, $700 million, then it dropped down to a few hundred million dollars in 2007. This is Genworth Life. Then it was less than $100 million in 2008 and 2009.

If it was $400 million if you stopped writing all new business, but you are going to keep writing new business, at what point is there a crossover? Should we be assuming that the stat earnings then going forward, considering your plans to grow, are going to be less than $400 million for some time?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

What I would say is having recaptured I will say the market share that we had in the 2006/2007 time frame in the life business and having seen the bounceback in the industry sales in Long Term Care that we certainly participated in, that going forward we wouldn't see the same increases. So we would see, I would expect, a more healthy level of statutory earnings going forward.

And separately to your earlier point, I would want to follow up with you to check on the numbers and call you. Because a lot of times those services take specific companies and don't show the consolidated results. I have found oftentimes that they don't give the accurate picture. So I would like to reconcile numbers and make sure you are working with what our actual history of reported results is on a consolidated basis. Okay?

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay, sorry to keep on this. I want to understand one thing. But in terms of your structure, aren't all the earnings underneath Genworth Life Insurance? Or is Genworth Life and Annuity something you have to add to that?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

It depends upon how it is reported. But the consolidated results would be everything that consolidates into Genworth Life Insurance Company in the U.S.

Ed Spehar - *BofA Merrill Lynch - Analyst*

Okay, yes, I would be very interested in follow-up. Thank you.

Operator

Suneet Kamath, Sanford Bernstein.

Suneet Kamath - *Sanford C. Bernstein - Analyst*

Thanks and good morning. I do apologize if you have gone over this because I was on another call. But I had a couple questions about slide 53 in your deck. The first is on the ROE growth guidance, the 30 to 60 basis points per year, ex-MI and other things.

I am not sure what you are doing with Corporate there. So I just was curious what your starting point ROE is. If I just back out MI, I think it is probably around 6% or so, maybe 6%, 7%. But how would you think about the starting point on top of which you will build by 30 to 60 basis points a year?

Pat Kelleher - *Genworth Financial, Inc. - EVP, CFO, R&P President & CEO*

This is Pat. The starting point is the 2010 return on equity for the Retirement -- or for the business, which is 6.5%.

Suneet Kamath - *Sanford C. Bernstein - Analyst*

Okay. Then a question about the leverage at 20% by 2012. If I just think about some of the other Life Insurance companies out there that quite frankly have higher ratings than you do, it seems like they're not quite targeting 20%. It may be something higher than that.

So I am just curious; why do you feel the need to go all the way down to 20% given that, quite friendly, your ratings are lower? I would think that that would give you some incremental capacity.

So is the idea here to try to get back to a double-A or is it to position you for some potential business restructuring down the road after you reduce your cash needs?

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

A lot of the other life companies don't have mortgage insurance companies. Mortgage insurance companies tend to carry less debt. So to my point, if you delever to a sum of the parts basis you have more strategic flexibility in your portfolio.

Suneet Kamath - *Sanford C. Bernstein - Analyst*

Okay, thanks.

Operator

Darren Arita, Deutsche Bank.

Darin Arita - *Deutsche Bank - Analyst*

Thank you. Just as we are thinking about the business portfolio, the Canadian IPO was very successful and it trades at a premium to buck rather than a discount. I guess I am curious how you are thinking about that success relative to the Australian business, and how a partial IPO might highlight value for shareholders.

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

Yes, Darin, this is Mike. Not an uncommon question, but I again step back and assuming you have heard the comments I have walked through today and the need to take a comprehensive look. I think what you want to do is look at this on a medium-term basis.

If you take your hypothetical case and say, what type of value do you have embedded in the only global mortgage insurance platform? Do you add to that value, do you degrade from that value, if you take a piecemeal approach? Which is what you are talking about.

We don't have a desire to be sort of a merchant bank holding company per se. I think it is best to look strategically at the business, therefore on the clustering of Protection and Retirement where we are proud of the lines we are in. We are leaders of the lines we are in. And look at the mortgage insurance platforms that we are in, how we are positioned and what their potential is going forward. And then think strategically more on those two fronts.

Though I understand, given the success of Canada -- which we too were pleased with, given the circumstances -- how the question comes up against Australia. So that is how we are thinking about approaching it, and see great potential in the Australian business going forward.

Darin Arita - *Deutsche Bank - Analyst*

I mean is there much benefit, though, cross benefit if we are thinking about a global mortgage insurance company in terms of having Australia, Canada, and the US?

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

Yes, actually we have seen probably the greatest commercial synergy within the global mortgage insurance group. I get to fly around the world and talk to lots of groups -- regulators, rating agencies, customers. And to a person, every one of them cites that as an advantage and part of the reason we get the business we do, we get the pricing we do, and they look for us not just for product but they look for us for risk management guidance. They look for us for who has the best technology in the world. We get consulted on public policy, housing public policy, housing finance policy.

And that is because we have a perch in so many different geographies of the world. We have, as an example, either weekly or biweekly operations meetings where we have people for example in ops areas, in loss mitigation areas, transferring practices.

We will move over time to a single technology platform, because we have learned from the different ones we have put out there. We have learned which value-added services gets more business and entrench you in customers and which are nice-to-dos but not need-to-dos.

You also find this going selectively into new markets. There are markets of the future that will be the next Canada or the next Australia. And the fact that we have lived through a lot of cycle, including the one in the U.S. that gets a lot of discussion, and that we have operated successfully through cycles as far as capital and protecting policyholders, makes us more credible as we sit with typically those governments and talk about what type of housing finance policy do want to have, how do you want to look at Basel III and the translation of it to your market, what are good risk practices, and so on as well.

So, that is another form beyond the markets we are in. Finally I want to go back to what Pat walked through thoroughly and remind you again -- when you look at how earnings get consolidated on a tax basis as those International earnings come in and consolidate up with the non-life group, that there is that synergy there. Because it is those earnings that have the opportunity to accelerate the consumption of that tax asset that produces cash.

So on those three fronts -- existing platforms, new markets, and financially -- you certainly see that. But let me just be clear. We don't shy away from looking at different scenarios. We ask every question like you do and that is appropriate to have a Board do.

But you can see we have been thinking through this fairly comprehensively on the global mortgage insurance side, and we will continue to do so.

Listen, thank you, everybody. I know it's been a long call. It is earnings season, but we wanted to give you as comprehensive as look as possible.

Given the progress we have made, but also being humble about the challenges we face and our commitment to execute for you and to be very diligent about that every day, and to be -- have a sense of urgency about that every day. That is where my head is. That is where our teams' head is. That is where our Board is.

And look forward to updating you in subsequent meetings, one-on-ones and so on. So have a good day. Thank you.

Operator

Ladies and gentlemen, this concludes Genworth Financial's fourth-quarter earnings conference call. We thank you for your participation. At this time, the call will end.
