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EDITED TRANSCRIPT

GNW - Q2 2011 Genworth Financial Inc Earnings Conference Call

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GNW reported 2Q11 results.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Genworth Financial's second-quarter earnings conference call. My name is Anthony. 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 today's conference call. As a reminder, today's conference is being recorded for replay purposes. We also ask that you refrain from using cell phones, speakerphones or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to Ms. Kelly Groh, interim head of Investor Relations. Ms. Groh, please go ahead.

Kelly Groh - *Genworth Financial, Inc. - Interim Head of Investor Relations*

Good morning and thank you for joining us. Our press release and financial supplement were released last evening and are posted on our website. This morning, you will first hear from two of our business leaders starting with Mike Fraizer, our Chairman and CEO, followed by Marty Klein, our CFO.

Following our prepared comments, we will open the call up for a question-and-answer period. In addition to our speakers, Pat Kelleher, Executive Vice President and Chief Executive Officer of the Retirement and Protection segment, Kevin Schneider, Senior Vice President and President of our U.S. Mortgage Insurance segment and Jerome Upton, Chief Operating Officer of our International segment as well as Ron Joelson, Chief Investment Officer and Buck Stinson, President of our insurance products for our Retirement and Protection business will be available to take questions.

With regard to forward-looking statements and the use of non-GAAP financial information, some of the statements we make during the call this morning may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary note regarding forward-looking statements in our earnings release and the Risk Factors section of our most recent Annual Report on Form 10-K, filed with the SEC in February 2011.

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

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

Now let me turn the call over to Mike Fraizer.

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

I would like to make five key points this morning. First, U.S. residential real estate and mortgage markets remain very challenging, and led to the action we took this quarter to strengthen U.S. MI reserves and provide capital support for new business.

That said, the U.S. MI business does not and will not have an unlimited call on the capital of the enterprise.

Second, we are making sound progress in our Retirement and Protection and international segments as well as it in our investment portfolio. I will leave it to Marty to cover some specifics in these areas.

Third, we understand that with our shares trading at a significant discount to book value, share repurchase is a compelling use of capital. There are, however, certain constraints and considerations here including rating agencies, maintaining risk buffers and financial flexibility, retiring debt, and assessing medium and long-term value prospects of the individual businesses.

We believe these considerations can be addressed while at the same time working actively to accelerate plans to return capital to shareholders and enhance shareholder value and I will update our perspectives on the time frame for this.

Fourth, we have a number of material efforts underway to optimize our business mix and capital deployment, and these contributed to our decision to use a portion of our Canadian shares to support U.S. MI.

Fifth, we recognize that the characteristics of our life insurance and wealth management business as compared with our MI businesses may appeal to different groups of investors. And are making progress on steps to facilitate the option of separating the Company along these lines, if and when it makes sense to do so.

Let me provide some additional perspective and details on several of these points. Let's start with U.S. MI. We believe the U.S. MI industry has strong future potential and continue to advocate actively on that front in public policy circles. We did see several market trends deteriorate in the quarter while also seeing new delinquencies fall. And we remain focused on addressing U.S. MI risk issues directly and actively.

Now trends like the ones we experienced could continue. So it is important to emphasize that the U.S. MI business does not have an unlimited call on the capital of the enterprise. I understand the question regarding the rationale behind our decision to use $375 million of stock we own in our Canadian subsidiary to provide statutory capital support to the U.S. MI to facilitate the continued writing of new business.

The idea of using these shares is not new. We preview the potential use of the shares with rating agencies and regulators and discussed it with investors on our first-quarter earnings call and in other investor meetings.

Let me summarize the assessment that led to this decision, then turn and address how we approach limiting our exposure to this business. First, in U.S. MI it is important to distinguish between business originated before and after the middle of 2008 when underwriting and pricing changed substantially. We like the quality and expected returns of the books of business originated since mid-2008, which have already generated more than $200 million of premium. These books are expected to generate pretax income of over $430 million over their life, with a return on equity in excess of 25% with the performance metrics of these books tracking to that return level.

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As we look to the future, we believe this type of opportunity can continue. And, therefore, there is real option value in writing new business. There are several key regulatory and legislative issues under debate, the resolution of which could materially increase the size of the private mortgage insurance market.

I would note three areas specifically. First, the administration has expressed its intent to reduce the role of the FHA in the origination market. Meanwhile, we have seen a modest but steady increase in MI purchase penetration from 5.3% in first quarter of 2010 to 8.2% in second quarter of 2011.

Next, the role of MI and what constitutes a qualified residential mortgage or so-called QRM could also have a significant impact on the future size of the MI market. We have been an active participant and the public policy debate on the role of low down payment lending in the recovery and mortgage finance more broadly.

Finally, the administration is reevaluating the role of the GSEs or some form of replacements in backing the country's mortgage debt. This, along with other factors, could impact both the size of our market and the potential for industry consolidation through the cycle.

So, although we have been granted risk to capital flexibility in the form of regulatory waivers above the 25 to 1 risks to capital level to keep writing new business, second-quarter losses, coupled with reserve actions, would have increased U.S. MI's ratios to a level that may have hindered our ability to continue writing profitable new business in the absence of the capital support action using a portion of MIC shares.

That said, we considered key factors before we decided to transfer a portion of the shares we own in MIC to U.S. MI. First, this capital contribution was not about sufficiency of claims paying resources or liquidity. And we analyzed both carefully. In fact, even in extreme stress scenarios, down from the current environment, U.S. MI's existing capital base and loss reserves maintained sufficient claims paying capability.

Second, we concluded this approach was better than the outcome from the financial analysis of a Company-initiated runoff. Given the recurring premium stream and the value and persistency of higher return new business, we believe that U.S. MI has significant residual value, even in stress scenarios.

So why did we use MIC shares? There were three considerations here. First, we had no intent to monetize these shares. Next, we could receive full statutory credit for the shares transferred. Finally, our multiyear analysis demonstrated that in those same extreme stress scenarios, U.S. MI's existing capital base and loss reserves maintained sufficient claims paying capability, including an adequate buffer in front of the contributed MIC shares.

So using MIC shares enables us to continue to hold a majority position in MI Canada on a consolidated basis. This decision was carefully vetted by management and the Board. We did consider a range of alternatives and concluded our best strategy at this time is to support the future potential of this business through the use of existing nonlife Company assets while preserving holding Company cash, which includes a prudent buffer for debt obligations as well as other expenses.

Now let's turn to how we approach limiting exposure to U.S. MI. It has been frustrating for all of us to take multiple increases to reserves while continuing to incur operating losses. Incorporating both internal and external analysis, including stress scenario assessment, we certainly feel the range of loss risk has been narrowed, though certainly not eliminated. Therefore, any additional capital support for U.S. MI would have to be predicated on multiple factors and the screens are very demanding.

First, is being on track towards executing other material capital reallocation transactions, which can support redeployment of capital for the benefit of shareholders, including the maintenance of prudent risk buffers.

Second, additional granular analysis of the risk, value and return considerations I outlined earlier along with a fresh assessment of all alternatives. These alternatives could include use of sidecars or NewCo-entities subject to investor interest and regulatory considerations, as well as alternatives considered before.

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Third, improved visibility on the public policy front. And finally, assessment of actions by competitors along with the current views of GSEs and regulators.

Let me now provide some perspectives on the next key area, the topic of share repurchases. We believe repurchasing shares at our current valuation is a compelling investment. At the same time as I stated at the outset, there are certain considerations we factor into all of our capital allocation decisions. These include maintaining our ratings, maintaining appropriate risk buffers and financial flexibility, and assessing medium and long-term value prospects for individual businesses.

In addition, we intend to reduce our leverage ratio from its current 24% level over time to provide more flexibility in managing our business portfolio. But I believe these considerations can be addressed while at the same time working to accelerate plans to return capital to shareholders. Specifically my goal and that of the Board is to accelerate the timeframe turned for returning capital to shareholders from the 2013/2014 timeframe that we discussed previously with investors into 2012, while keeping an eye on the overall markets and financial flexibility that benefits all debt and equity holders.

Now let me turn to my fourth point, an update on our various efforts we have underway to manage our business portfolio and optimize capital deployment with a goal of accelerating redeployment to improve shareholder value.

We are pursuing initiatives on three fronts. First, we are targeting the Medicare supplement sale closing for early in the fourth quarter, which frees up $240 million of capital. Marty will address this further.

Second, we have substantially refined our strategy to monetize a portion or all of certain life insurance blocks, starting in the second half of 2011 and continuing through 2012 to reduce earnings volatility and/or free lower return capital for redeployment.

This effort has now moved past the conceptual phase to a negotiation mode. We are targeting a capital impact of at least several hundred million dollars from initial transactions. Naturally, market conditions can influence the demand, timing and execution of such transactions.

Third, we provided investors an interim update on our thinking about the business portfolio in February, and you saw the actions we took to exit variable annuities and Medicare supplement insurance. This review of our business portfolio has remained very active over the past several months.

In this connection, although we desire to maintain control positions in our operating businesses in general, we have been evaluating changing ownership levels in some of them to enable material redeployment of capital that would enhance shareholder value.

This could include asset sales. As I mentioned before, we, of course, keep a sharp eye on the same key factors of risk buffers, ratings considerations and valuations, along with book value per share accretion and EPS considerations in such evaluations.

Because we are in various stages of these efforts, it would not be appropriate to say anymore at this time. For now I will just say that our management team and Board along with our advisors have been devoting a considerable amount of time to this process, and all bring a sense of urgency to the efforts.

As we work through the initiatives in these areas, I would also note our sales have been fairly strong in the U.S. life businesses and a bit light internationally reflecting market dynamics, both of which influence capital generation and consumption. We will take these factors into account and work to adjust dividend and sales levels accordingly to optimize how and where we allocate capital.

I will turn now to my fifth and final point, whether it makes sense to separate the Company into two components. We recognize that this could be a desirable way to create shareholder value over time. We have explained why we do not believe it is a strategy to execute in the near term, given financial synergies, capital structure considerations, market environment, valuation levels and the fact that our businesses are in various stages of recovery.

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However, we have also stated that we would continue to evaluate a split as such circumstances change. Thus, to enable execution of this option in the future we have taken and will continue to take several preparatory steps, including planning for a realignment of our businesses from an operating standpoint during 2011, adjusting our debt levels downward over time, and transitioning certain business platforms towards more stand alone capital structures.

We are making sound progress on all these fronts.

In summary, we recognize that the current market discount applied to Genworth dramatically undervalues our underlying business platforms and their potential. We fully intend to unlock that value and potential through a combination of effective execution of current business plans, realistic assessment of the current and future prospects of our business portfolio, thoughtful analysis of risks and opportunities, optimizing capital deployment and liquidity, supporting our holding company and taking prompt and appropriate actions to substantially enhance the value of our business portfolio.

Now let me turn it over to Marty. Marty?

Marty Klein - *Genworth Financial, Inc. - CFO*

Thanks, Mike, and good morning. I have three key areas I want to discuss beginning with segment results in the quarter, followed by our investment portfolio, and then our overall capital and liquidity plans. I will start with U.S. MI, and first want to frame the continued weakness in the U.S. residential real estate market.

The unemployment rate was 9.2% at the end of June and the recovery of the job market continues to be slow. Excess housing stock remains high for a number of reasons and the FHFA had reported a home price decline through last December of 20%, a revision of their earlier estimate of 15%.

We still believe the decline will continue another 4 to 5 points extending into 2012 so the peak to trough decline would be about 24%.

With these economic factors as a backdrop let's review the impact on U.S. MI and discuss the reserve strengthening. Our total primary delinquencies declined 2% sequentially with new delinquencies down 18% year over year and 11% sequentially. However, the shifts in the payment status or aging have accelerated while our cure rate overall has declined 5 points from the first quarter.

Delinquencies with greater than 12 missed payments grew 3 points from last quarter to 45% of the total and grew 13 points from a year ago. This is a symptom of a slower foreclosure to claim process by servicers. Lower cures and modifications outside of HAMP are impacting delinquencies with four to 11 mixed missed payments due to the worsening economic conditions and continued service or issues related to process, systems and outside scrutiny.

The cure rate in this category declined 2 points from first quarter. We continue to see earlier stage delinquencies moving to late stage more rapidly, possibly from servicers which are dual processing modifications and foreclosures as we began to see in the first quarter.

Given the combination of these factors, we recorded the $300 million reserve strengthening this quarter. $100 million of this related to our experience of these worsening trends and $200 million was in anticipation of further declines in the U.S. housing market and in cure rates.

The results of our reserve evaluation this quarter were different from those in the fourth quarter. In the fourth quarter we addressed reserves for trends we were seeing in the late stage delinquencies. The current reserve strengthening addressed the two trends we saw this quarter, which were lower borrower self-cures and a higher rate of early stage delinquencies going to late stage.

These reserve actions in total have addressed the worsening trends across our entire portfolio. Our average flow reserve per delinquency is now $29,200, up from $25,400 in the first quarter and up $9,700 from a year ago. This brings our total amount reserved for flow delinquencies up to 58% of risk in force from 48% at year end with 71% reserved in the greater than 12 missed payment delinquency category, and 60% reserved in the four to 11 missed payment category.

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Our loss mitigation savings for the quarter were $130 million, bringing the year-to-date total to $252 million. We expect these levels to decline a bit in the second half of the year, but are still on track to meet full-year savings of $400 million to $500 million.

I would stress that we see significant differences in performance by servicer, which is impacting our modification, cures and foreclosures to claim process in many cases.

Looking ahead, our share remains at 15%, and new business profitability is strong with expected ROEs north of 20%. The risk in force on business from second half of 2008 through the current quarter, which represents almost 20% of our risk in force, is performing well. Including the capital infusion the estimated consolidated risk to capital ratio for the quarter is 25 to 1. We continue to look for additional capital flexibility, such as stacked entities and reinsurance structures.

Moving now to the International segment, underlying performance for the quarter was solid. There were some tax adjustments in both the prior year and this quarter, increasing tax expense, resulting in higher tax impacts of $22 million. Looking through the tax adjustments, our pretax segment earnings increased by 11%, driven mostly by good Lifestyle Protection performance.

Capital ratios across all platforms remain strong and we are on track to meet our dividend targets for the year.

Turning to performance by business, in Canada, operating earnings for the quarter were down 38% from the prior year, driven by an unfavorable U.S. tax adjustment of $12 million and interest expense related to local debt issuances to optimize our capital structure.

The underlying performance of this business remains strong, as the loss ratio declined to 33%, a 5 point sequential decline, driven by improvements primarily in Alberta as well as continued focus on loss mitigation.

While the revenue line in Canada will remain pressured due to the maturities of the large 2007 and 2008 books, our share is up and the stable economic and housing market environment, performance is on track to continue to generate significant capital.

In Australia operating earnings were down 22% reflecting a $10 million favorable tax adjustment in the prior year as well as increased delinquencies. The loss ratio increased 6 points over the prior year to 48% reflecting a slow recovery in Queensland from the flooding earlier in the year, as well as the combined impacts of higher interest rates, increased living costs and the strong Australia dollar pressuring certain consumers and small business owners.

As a result, our loss ratio estimates for the second half of the year are in the high 40s to low 50s.

From a capital perspective, we completed a Tier 2 debt issuance of 140 million in Aussie dollars, which is part of our capital plan to reduce the affiliate reinsurance and optimize our capital structure. We expect solid in force performance along with lower levels of new insurance written to keep driving excess capital generation in this business.

Moving to Retirement and Protection, operating earnings were up significantly. The life insurance business had favorable mortality results of $6 million and favorable investment income on $6 million. Investment results benefited from favorable limited partnership results and prepayment fees on bond calls. Also, to improve margins we selectively repurchased notes backing excess reserve funding obligations at a discount for an $11 million gain.

Profits from new sales over the last year, along with improved persistency, together contributed $9 million this quarter.

The long-term care business experienced a challenging quarter with performance hurt by increased incidence of claims in the older blocks of business. Overall, the loss ratio is at the high end of our expectations at 70%. This follows a first-quarter ratio of 65% near the midpoint of our expected range.

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I do want to note that our loss ratios on the newer generation business continue to do well. 50% this quarter. We are closely monitoring claims development on the old blocks to see if this situation continues beyond this quarter or if claims return to normal levels.

Let's shift now from quarterly results to discuss the initiatives in R&P for the rest of this year and next. These initiatives fall into three categories. First, narrowing our breadth of business to concentrate on our primary businesses. Second, improving in force margins, and third, freeing up capital.

Over the last two quarters we have taken significant steps in these areas. Most notably, we exited the variable annuity business and are now in the process of closing the sale of our Medicare supplement business. The VA exit will reduce our statutory capital consumption this year by approximately $60 million and the Medicare supplement sale, which is expected to close early in the fourth quarter, should generate $240 million of capital for redeployment.

At the same time we have seen sales expand in life insurance, long-term care and fixed annuities, but are actively managing the volume, capital consumption and profitability of this new business. For example, in August we will introduce an updated individual long-term care product with price increases in the range of 9% to 20%, depending on the risk and benefit profile.

We will maintain pricing and capital discipline in all these lines. So second half sales may slow from the first half.

In addition to pricing, we also use our reinsurance programs to achieve targeted levels of capital utilization and returns. Regarding our efforts to improve in force margins, one example is the action we took to file an 18% price increase on the majority of the old long-term care blocks, which should result in an estimated $60 million to $70 million in additional annual premium.

With respect to freeing up capital, we are very focused on evaluating a series of life block transactions and estimate these transactions to occur later this year and into 2012.

Moving to investments, the global portfolio is performing well. Core yields are up to 4.7% in the quarter as alternative asset valuations are improving, and we are optimizing cash balances and product portfolio funding levels. Impairments were modest in the quarter and half of the level that we reported one year ago, reflecting the derisking of the investment portfolio over the last several quarters.

Let's now look at the holding company, and the progress that we've made on our goals through the second quarter. At the holding company level our capital and liquidity plans are focused on managing across four goals.

First, maintaining suitable financial flexibility across a reasonable range of economic and business conditions. We are mindful of the potential risks to the economy, not just in the U.S., but in all of the markets where we operate. Our capital plans are meant to protect our operating businesses and the Company even in challenging environments.

Second, holding cash balances of at least two times our annual debt service expense. This creates risk buffers against environmental and capital market stresses to ensure that we have liquidity to meet all our debt obligations and also improves our ratings profile.

Third, managing leverage to provide flexibility over various cycles of the long-term goal of between 22% and 24%. This is a revision of our former target of 20% at the end of 2012.

We believe this new goal provides additional capital flexibility while keeping us well within rating agency thresholds for our ratings.

Fourth, creating a recurring stream of dividends in our businesses that can support our first three goals and create shareholder value over time.

At the end of the second quarter, the holding company held cash and liquid securities of $667 million, about $150 million above our cash buffer target, reflecting payment of $548 million of debt maturing in the quarter.

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With the payment of this debt we reduced leverage by 2 points, net of new debt. Our next maturity of about $220 million in June 2012 and we have no debt maturing in 2013.

Turning to dividends to our holding company. As we outlined at Investor Day, the majority of our 2011 dividends will come from our international businesses. We estimate that approximately $350 million will come this year from those businesses. Additionally, we plan to dividend up to the holding company the majority of our Medicare supplement sale proceeds. This may occur in a couple of steps. However, we do expect a large dividend late this year subject to regulatory approval.

We will decide more specifically how to redeploy those proceeds as we make headway on other initiatives to free up and generate capital.

Finally, on the people front I'm happy to report that Georgette Nicholas, who many of our investors know from her role within U.S. MI, will be leading our Investor Relations team. She will be transitioning out of her current role to IR in mid September. In the meantime, Kelly Groh will serve as our Investor Relations point. Kelly has many years of experience at Genworth in a variety of senior financial and investment roles.

In closing, we are on track with most of our business and investment goals. However, we are very disappointed with our performance in U.S. MI and are extremely focused on addressing this performance and the concerns of investors.

With that, I would like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, at this time we will begin the Q&A portion of the call. As a reminder, please refrain from using cell phones, speakerphones or headsets. (Operator Instructions). Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

I suspect I won't get to answers for the questions I would really like to ask so I am going to stick with one set that I think are answerable on this call.

The first one I want to ask about is on the life side. One of the rating agencies put your life OpCos on negative watch. And if your life OpCo ratings were to fall out of the Single A category into the BBB category, whether that be at one or several rating agencies, what would the implications be for sales trends in the life products that you are now focusing on?

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

Pat, do you want to take that?

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

Sure. One of the -- I would comment that one of the rating agencies did put the life companies on credit watch and simply I would add qualitatively that was something that they indicated they would do should there be some additional reserves or negative experience in U.S. Mortgage Insurance. That is for the purpose of doing a more thorough review of the life operations.

I am feeling very good about the capital positions in the life companies, the earnings trends, and the performance of the business in particular in terms of market shares and the sales that we have seen recently.

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I would have to say that there would be impacts relating to a downgrade on our life insurance operations. I think that distributors would take into account the strong ratings we enjoy from the other rating agencies. When we look at that scenario, we reflect back on the experience that we had a couple of years ago where strong distributor loyalty and, I will say it, a close collaboration with independents and career distributors resulted in a situation where we have maintained those relationships and built them back up over time.

I think it is also important in considering those distribution relationships that we continue to enjoy strong Single A ratings from both Moody's and S&P. In fact, in, I will say, the recent reviews, S&P did review and affirm the holding company. I -- it did not see a need to review the life companies in the context of the current situation.

Moody's has recently, as following the first quarter, took a very detailed look at our operations and affirmed the ratings of both the holding company in the life companies. I think that will factor strongly into the decision. Does that help?

Donna Halverstadt - *Goldman Sachs - Analyst*

Yes, thanks. On the MI side, in setting your U.S. MI reserves is there anything that you can do with respect to processes or procedures or otherwise that would reduce your reserve sensitivity to deviations in actual, relative to assumptions on things like cures and modifications and rescissions and denials, et cetera?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

This is Kevin. I think -- a couple of ways I think about that. Number one is it is based on actual observed experience and the future trends. So what you saw in the quarter, one of the things we did this quarter as we did in the fourth quarter was we took both a reserve strengthening from our existing experience that we saw and then we further -- of $100 million -- and we further strengthened reserves an additional $200 million to account for where we thought cure trends might deteriorate to.

So, we tried to do that in the fourth quarter. We have taken another crack at it this quarter; we think we have narrowed what the additional volatility might be. Can't tell you we got it all, but we have done that.

Additionally, we've really availed ourselves of a lot of other third-party views into their overall assessment of our experience and our reserve levels. We take into account both internal and external views. We have worked with the regulators. They have done analysis of our reserve levels. The GSEs have undertaken their own, and we work with closely with them and certainly use independent actuaries as well.

So, we are trying to take as open of a look at this as possible. We think that makes a lot of sense. And we are certainly not happy with that volatility. But it is operating in an environment that continues to be pretty volatile as well.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay, then the last question is two-part. Then I will get back in the queue. That is on debt and capital. With respect to the non-cash intercompany transactions you're using to create the capital in U.S. MI, whether it is with other MIC shares or other financial assets you have outside of the life co, can you quantify how much more capital you can create in U.S. MI through these types of maneuvers before you have to pull some other lever. That is the capital question.

Then on the debt side, if you get to the point where you do split the companies, would you keep all the existing debt at what I will call main co or where would you shift some of it over to the MI company?

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

This is Mike. First, you are sort of on a when and how question regarding use of shares, additional support for U.S. MI. I want to direct you back to the if question, because that is why I wanted to be very pointed in my remarks that although we like the industry, we think it has good potential, the U.S. MI business does not have an unlimited call in on the capital of the enterprise.

So, a lot would have to have happen first. That is why I sort of laid out four -- what I will call sort of a four-part framework and it is a challenging one to really take a hard look. First they said we had to be on -- would have to be on track, executing other material capital reallocation transactions. That could support redeployment of capital for shareholders. And that includes maintaining good risk buffers.

We will do a lot granule granular analysis, because environments have changed. They are dynamic. And that would have to hit all the risk factors, value considerations, return considerations.

And take a real hard look at alternatives. We look -- we worked hard looking at alternatives. Too. We have talked on prior calls about NewCo entities, stacked entities, as an example. We were out one of the first ones going back even in the 2009 timeframe, looking at sidecars, which we literally structured them and took them around and we didn't see a lot of interest then. And maybe now as people have seen these new books season in, there will be renewed interest in them.

You can see there are other MIs who have taken a look at alternatives too. Look at Old Republic, mentioned that they were working on Newco entities. We applaud that. In fact, as an industry the Mortgage Insurance industry is working on that, so we hope we altogether can push that forward. And that can also be a way to attract new capital to the industry to support new books.

Then you would have to have certainly a better visibility. To me on the public policy front, there is a lot of things going on in Washington in housing, finance and reform. And, frankly, I know there is a lot of focus on the primary issue going on two hours up the road here with the debt ceiling. But every comment talks about, well, we have to get the housing industry back to help the employment situation and the economy. Well, that takes a focused effort from the executive branch and it takes a focus focused effort within Congress to narrow the range of many programs that have been put out there and get on a track to take uncertainty out of housing finance and out of loan servicing practices. Because uncertainty doesn't help anybody, and we are pushing that and I think others may need to push that as well.

Finally, we have to assess what are the actions of competitors along with the current views of GSEs and regulators. You can see some consolidation occur. So even if you could see consolidation, that is another type of dynamic or alternative to consider as well. There is always the alternative of a company initiated and sponsored runoff scenario.

So to me, you have to go through all of those types of screens first and that informs your view of what steps you might take. But I think I have been pretty clear on capital allocation priorities and what we want to do to keep the holding company strong.

Donna Halverstadt - *Goldman Sachs - Analyst*

Great, and the debt question?

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

On the debt question, it is sort of speculative, basically at this point. This isn't new ground in business. In other words, separation of companies. But you have to go through a thoughtful process structuring all types of considerations in vetting. So there is no reason to me to go to speculate on that front.

I will bring you back to the point, however, that you would see us at a sort of 24% leverage ratio. Bringing that gradually down over time aids in that strategy, if you want to go that way. We did do a lot of work, as I have said, a number of fronts, including work with advisors; and we are always

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talking to the agencies and hence updated our view that we could be in that 22%, 24% range that Marty laid out, and be supportive of the strategic alternatives that I outlined.

So, that is why you saw that move from what we talked about in general in the 20%, 21% range and updated that to the 22% to the 24%. We think that still lets you have the flexibilities you need.

Donna Halverstadt - *Goldman Sachs - Analyst*

Thanks for all your input.

Operator

Darin Arita, Deutsche Bank.

Darin Arita - *Deutsche Bank - Analyst*

Thank you. First question is on the U.S. Mortgage Insurance side. Mike, you mentioned that it does not have an unlimited capital call on the enterprise. I was glad to hear that. But I was wondering if you could quantify how much additional capital would you be willing to move into the U.S. Mortgage Insurance subs.

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

You know, if I could hit a replay button on what I just said to Donna, I would. Because that is the issue in my mind. To me you have to get through all of the if screens, the four points that I walked through. And let that inform your view.

I will say for what we have already done, one, we think we have created a very good quarter to support new business. We have taken an important step on that, but we want to evaluate all the other points in a thoughtful manner and let that inform in any future decision.

Darin Arita - *Deutsche Bank - Analyst*

I guess I am just thinking it would give a lot of the equity investors and, I think, people on the credit side, too, much more comfort if we could draw a line in the sand somehow here. Understand there is a lot of moving dynamics there in the decision process and it is not easy, but if there is anyway, if not now at some point, you could just say this is the furthest we will go. I think that could be helpful. (multiple speakers).

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

Fair point. I understand and respect that point. I have tried to be quite specific in how you have to look at these things. There is a whole host of alternatives here to me before you even approach the thought of additional capital support that have to be vetted. We have been doing a lot of work, as I said, elsewhere in the portfolio.

So that is another piece of the puzzle here, but I respect the point. I have tried to be as declarative directionally as I think I can right now.

Let me be very clear though. You raised the question on debt. Our focus, as Marty laid out at the holding company, is to have substantial buffers, the two times coverage. You can see how we pay down debt. We have effectively pre-funded the 222 coming next year. We think very -- every day we think about protecting debt holders as we deal with our their constituents -- policyholders, investors. And I think if you think about all the different areas I touched, I am certainly trying to send that as a strong message to everybody.

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Darin Arita - *Deutsche Bank - Analyst*

All right. Just on your comments about share buybacks. Mike, I was wondering to what extent you have expressed your plans to the rating agencies on resuming share repurchases in 2012 rather than the previous plan of 2013/2014.

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

Well, first let's put it in context. You always start, as I've said, looking at risk environments because risk environments change. They change, as Marty said, in the U.S. They change globally and we start there and you have to make sure you have financial flexibility for different risk environments.

And there's certain -- we all know there is a number of uncertainties in the world out there. With that informing your view, as I have said, you go right at your ratings. You always talk to the agencies about wanting to maintain the types of buffers, getting their inputs. Every rating agency has talked on an industry basis about all of the commentary of repurchases, when are they appropriate, one wouldn't it make sense. Et cetera.

But as we talk about reshaping our business portfolio, that creates certainly an important contextual element here.

So, absolutely, that is a consultative point there. So we will bring all those forward in our regular and ongoing updates of the agencies. But you start with the risks and the ratings piece, but when you look at the things we have been looking at and it is more than looking, working on, with substantial effort underway, which absorbs most of my time, we see this element of being able to maintain prudent approaches and reallocate capital.

Darin Arita - *Deutsche Bank - Analyst*

Thank you.

Operator

Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Maybe just following onto Darin's question about the buybacks, Mike, I know you can't tell us what you're going to do, but maybe just probabilistically what do you think the chances are of a repurchase next year? And at what point will that decision in 2012 be? Will it be early in the year? Will it be late in the year?

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

Well, put it this way, we would tend not to talk as specifically as we are talking about this whole host of points I did, and sort of particularly if we think of points three, four and five that I went through unless you had done a lot of work, have a lot of effort underway, we're making progress, on those efforts, and I will leave it at that.

I'm not going to speculate on the timing. But I certainly gave what I think is a very clear direction. Some people asked us about what were you doing in looking at the Med supp business and we announced a transaction when we had something to announce. And in general, I think there are a lot of constituencies and some complexities in any repositioning or transaction and it is best to work through those before you have a public discussion. I think that is a good rule to live by.

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Andrew Kligerman - *UBS - Analyst*

Okay, all right. So I'm just going to take that because you're doing a lot of work on it then that there is a good chance. So with regard to Australia, so the loss ratio was 40% in 2010, 48% this quarter, and I think I heard Marty mention the expectation is that it now goes to the high 40s, low 50s.

With less than 0.6% of your insured loans in delinquency, what gives you comfort or what gives you a lack of comfort that these loss ratios won't move up sharply in the next year or two?

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

Let me hand that over to Jerome Upton.

Jerome Upton - *Genworth Financial, Inc. - COO International*

I think you need to, if I could offer a way to think about this, is some of the things you're feeling in the loss ratio is lingering impacts of the Queensland flood. There has been a slow recovery there. And we all know there is government stimulus coming in that is going to help the recovery process. It is just going to take some time to come back. So that is the first thing that I would tell you.

Then, also, you have to think about the insurance in force and the quality of the book that we have there. And I would encourage you to look at the change or the movement and not necessarily where we ended up from a delinquency rate perspective. That is in indeed low, but you need to look at the change. Then when you think about the quality of that book, it is very good and there is very solid levels of embedded HPA there.

When we underwrite product in that market we use interest-rate buffers and we vary those buffers based on market conditions. And we raised the buffers for the 2009 and 2010 block. And then, finally, I would just offer you that we continue to partner very closely with our customers, our lenders to mitigate losses in that area.

So when you think about all of that, you've got the Queensland area that has been probably the predominant pressure in the block. That is going to come back over time with the stimulus activity, the recovery of mining and agriculture, then the quality of the business.

And finally, I would just say that from a market fundamental perspective the market remains strong. There is some unique characteristics there that make it strong with respect to the supply/demand. There is more demand in that market than there is supply, about 180,000 units.

So I hope that helps.

Andrew Kligerman - *UBS - Analyst*

Definitely, thank you. Then just with regard to the U.S. Mortgage Insurance area, just an interest -- the stat that interested me is the average paid claim is about $41,000 and now the reserves per delinquency have been strengthened to $29,000. But the question is, is that enough? Cure rates continue to decline. Why would you be comfortable that that is enough?

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

Kevin, you want to take that please?

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Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

One way you could think about this, and I would just take us to the complete extreme. If you take it to the complete extreme, you say, why don't you just reserve this whole thing at 100%? And the reality is to do that would be totally inappropriate and inconsistent with the actual observed experience we have seen.

We added some additional -- just to give you some context -- we added some additional, I think, positive transparency in our new quarterly financial supplement. If you look to page 46 in there and everybody else on the phone as well, there is a piece in there that talks about the composition of the cures that are going on in our book of business.

You go back and reference that, and what you see is we continue to have cures at all levels of those various late payment stages. The less than three. The four to 11, and even -- most importantly, the above 12 -- the 12 plus down payments.

So I think we have taken a substantial move and I think we probably have the most conservative reserve levels now in the industry, if you look at it, with a book of business that I think was probably one of the most conservative books of business done. And now we're going to wait and continue to watch the experience play out.

If you go back and say, look at the June 2009 population of 12 plus loans, 25% of those that were 12 plus delinquent back in June of 2009 have already cured. So you continue to have cure experience here.

Our loss mitigation efforts continue to help it. But I am with you. We are not satisfied that we have continued to have erosion here. But we've got a servicer industry right now that is pretty clogged up and isn't functioning correctly and isn't functioning properly, and we are hoping that is going to clear up as we get through some of the servicer settlements.

Again, we will watch it closely. We took another big -- we took a big strengthening this quarter. We took -- we went beyond it. And hope that additional level of conservatism based upon the trends that we think could continue to play out will get us through the balance of this thing.

Andrew Kligerman - *UBS - Analyst*

Got it. Thanks. My last question revolves around the structural potential structural changes of the Company. I always think back to this old Warren Buffett comment about when you've got a great management in a horrible company, the horrible company's reputation wins out. So what we have seen is Old Republic yesterday, we saw over the wires that they're not going to put another dime of capital into their U.S. MI business. Just heard Marty comment that you're going to have to monitor the long-term care loss ratio, which is now inched up past 70%.

So you've got a lot of tough businesses, Mike. I know you can't say what you're going to do. Maybe just tell us how much you love the businesses. Do you love these businesses? Is it something that you don't want to let go of? What are you thinking?

U.S. MI has got some real challenges as does LTCI and potentially other businesses.

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

You have asked a number of questions there.

Andrew Kligerman - *UBS - Analyst*

I'm sorry. I will keep it at how much do you like U.S. MI. How much do you like LTCI?

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

Let me -- no, I am going to take all of your various questions and answer them the way I want to. Now you asked about Old Republic, and as I -- I brought that up, because I think the Newco concept is good for the industry. And it is one we want to support as an industry as well as our individual efforts.

If you want to go into it I will let Kevin go into, there is some differences certainly between our circumstance and Old Republic's when you look at book of business, level of new business and share. There is a lot of differences there, and we can delve into that it that is helpful. So I will give you a follow-up on that one.

Let's go back to the point is, I think any time you are working through a business portfolio you have to realistically assess a number of factors. We have lots of constituencies, as you can imagine. We have investors. We have bondholders. We have policyholders. We have regulators and rating agencies and employees -- the list goes on.

You have to look at their markets realistically, what you think they are as well as the current risks and opportunities in them. And you have to look at where are you concentrating, or are you putting your capital enough, so you are very deep and good at the right number of things. Because if you are spread out too much, that can be certainly a negative. If you are managing a business portfolio, that has more than one line.

Yes, you can get dif -- financial synergies, diversification benefits. I understand that. But we have been taking a real hard look at our businesses. I break them down on two fronts. You look at those that are more protection or retirement-oriented, and you saw the calls made on a number of fronts. If I rewind over time. Go back several years. Got out of the small-group business. We got out of institutional.

Well, we sold the small-group business, frankly, at a very attractive valuation. Put institutional in runoff. Sold Med supp again at a very attractive valuation. VA into runoff with the capital benefit. So -- and really honed down on fewer things in that area and took actions whether it is LTC new business pricing actions, old book pricing actions, actions we took to price in life insurance. We took a whole set of pricing and contract actions in Lifestyle Protection.

All of which were to say where you remain do you have good margins, can you manage the risk and do just that?

If you look at the MI side of the house, we have worked through -- we have talked about the U.S. MI market, both how we see its potential and what we think remains as value in the business as well as the international platforms. But I think we will not hesitate to reallocate capital to balance returns where we get better returns for shareholders, balance risk, specifically, and do that on a fairly clinical basis.

So this isn't about emotion. It is not about just saying I've got to be in a business because I have always been in a business traditionally. It is about a cold, hard evaluation and we do that on an ongoing basis. That is not just a project that happens periodically. I think that is a fairly dynamic process, that a management team and a Board have to go through and hence my comments on our engagement in doing just that.

Andrew Kligerman - *UBS - Analyst*

So right now do these businesses seem pretty compelling? Is there a fairly good chance that we could see some material changes to next year?

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

Andrew, I think my comments were pretty specific that we are working on things that involve material redeployment of capital and the opportunity for that. But you're going to have to see some of those as they unfold. And in response to some other questions, I gave my thinking around that.

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Andrew Kligerman - *UBS - Analyst*

Okay, thanks for all your time on this.

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

Thank you for yours.

Operator

Steven Schwartz, Raymond James.

Steven Schwartz - *Raymond James & Associates - Analyst*

I've got three -- kind of in follow-up to a couple of the points that we just talked about with Andrew. First and foremost I think the potential change in the Company structure, splitting out the R&P businesses, I gather, from all of the MIs, didn't you address this? I think it was in the first quarter or the fourth quarter, Mike, with regards to the tax situation and how it would be very unattractive?

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

Well, I guess I would think about it this way. One of my intents in addressing the point is people continue to ask you about it. It is a natural question. I think as -- particularly as we all went through the financial crisis period, the associated recession and that, investors, companies, everyone took a hard look at businesses you're in. And compatibility of businesses that you are in or -- and synergies.

So that is an ongoing dialogue that you tend to have and, certainly, with the investor community.

I pointed out that there are important tax considerations. That I look at it this way as strategies have to lead the way. And then you look at tax implications; you don't let taxes drive the strategy, so it is one element. We wanted to be transparent on that element, but certain of the structuring things that I mentioned and alignments that we are getting completed in 2011, which have alignment and commercial benefits, also bring with them tax opportunities as well.

So that is why I point the difference between immediate or near-term versus things that can unfold that you should prepare for, because the balance of all your considerations can intersect and then lead you to the ultimate decision. But, listen, I want to investors to know that we think about that actively everyday. And we don't -- we are not sitting here with our feet on the ground on that front and that we are thoughtfully letting the strategic elements drive the way, while we think about the other economic aspects and take preparatory steps.

Steven Schwartz - *Raymond James & Associates - Analyst*

And then with reference to the actions that Old Republic took yesterday. I guess I'm not getting why you think what you did with the MIC business is -- with the MIC shares is better than what Old Republic is trying to do.

The runoff, the old business put capital in the new business. Unless your thought pattern really is there is just no way regulators would approve this. (multiple speakers).

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

Well, first, let me turn it over to Kevin to talk specifically about some considerations around that. And then I will pick up from there. Go ahead.

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Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

As Mike referred to earlier, we like the concept of a separate entity for new business. And we discussed this, over the last couple of years, it has been a key part of our overall capital strategy to attempt to license and capitalize entities so that we could go write that new business as well. We have entities in place that are fully licensed and capitalized and available to write new business outside of our flagship.

And -- but to date, we have been unable to really get the GSE approval to be able to write that production in all 50 states out of those new entities.

So, so far it has really been just limited to where we have not received waivers in a handful of states. We plan to continue to work that as our RMIC said they were going to yesterday.

Additionally, we think that there are significant amount of commercial risks associated with the approach they've taken. You don't to simply turn things off and turn them back on and think you are going to be able to maintain your commercial relationships. I know that is a reality.

So given where we think we are right now, we think it was a good option value to take the move that we did. I will turn it back to Mike.

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

Going back, Stephen, to your point, as I said in my prepared remarks, we didn't have an intent to sell those MIC shares. You could get statutory credit out of those. But, listen, I don't want to sugarcoat it, we gave capital support to support new business because of how we felt about the industry, but it also has a lot of bounds on that. As I walked through in the four points that I covered in both my prepared remarks and the response to several of the questions.

Steven Schwartz - *Raymond James & Associates - Analyst*

Right, I wasn't going to ask this, but from what you just said my big takeaway from your discussion here is that you are convinced that those shares will not be touched. That you've got plenty -- that is the bet, right? You've got plenty of capital in front of those shares.

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

Well, we certainly did a stress test claims payment ability, what I call a burn down analysis that to say that you want to have a substantial cushion before those shares would be in line.

Steven Schwartz - *Raymond James & Associates - Analyst*

Okay, and then last one. This was going to be my last one. Kevin, the claims outlook, the claims payment outlook in U.S. MI, MGIC talked about how they thought that their claims payment, they would probably max in this quarter and they would begin to come down. What are you thinking?

Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

I don't think this is the low point of claims payment. I think we should expect some additional pressure on that. (multiple speakers).

Steven Schwartz - *Raymond James & Associates - Analyst*

You mean, high point, Kevin? You don't think it is the high point of -- your worst case scenario?

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Kevin Schneider - *Genworth Financial, Inc. - SVP, U.S. MI President & CEO*

No, I do not think it was a high point for us. I think we have been impacted by the foreclosure cycle and the gumming up in the servicing system, extending the claims -- the foreclosure cycle. I would expect that this is not the high point at this point.

Steven Schwartz - *Raymond James & Associates - Analyst*

Okay, all right, great. Thanks, guys.

Operator

Tamara Kravec, NWQ Investment Management.

Jon Bosse - *NWQ Investment Management - Analyst*

It is Jon Bosse. Mike, can you talk a little bit about the process of how you think about making the actual choices between what your options are, what you want to invest in, if you sell things, how you go from studying and thinking about it to the plan of action that you will go out and execute?

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

Thanks for that. Couple of questions. One is, we have been talking first to a number of investors, who have shared a number of their views, which I think is an important component to couple with our own views about different business platforms, risks, opportunities, how do you get value out of that and we are going to continue that.

I think that is got to be an important element of that, some of that done best in one-on-one form and then as I get here towards end of September timeframe, early fall, I like to do -- have another investor type of session group, a normal Investor Day type of session as well.

Two, we use a number of advisers, too. So in addition to our own thoughts on that. As we have gone through the portfolio, and vetted it and looking at relative synergies, values and also what happens when you take -- pursue certain strategies with one of the, I think, very important screens here being how do you look at your book value per share accretion. Because that can be a very important element, along with things like what are you doing with your returns, EPS considerations and how you drive improved value.

That whole type of process has again remained active since our February investor update. And so it is not just, I will say it is not conceptual in mode. It is very deep and working in mode. And that is why I made the comments that I made. So it is a very thorough, thoughtful, comprehensive process and certainly I welcome other time and thoughts from people on it.

I know we have our own. I do want to emphasize the element of Board engagement, that the Board is very engaged. As I said, management has a sense of urgency about vetting through this as well as certainly the Board does.

Operator

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

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