Q1 2015 Genworth Financial Inc Earnings Call - Final

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* Jimmy Bhullar

JPMorgan - Analyst

* Ryan Krueger

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* Sean Dargan

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Presentation

OPERATOR: Good morning, ladies and gentlemen, and welcome to Genworth Financial's first quarter 2015 earnings conference call. My name is Trisha, and I will be your coordinator today.

(Operator Instructions)

As a reminder, the conference is being recorded for replay purposes. Also, we 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 Amy Corbin, Senior Vice President of Investor Relations. Ms. Corbin, you may proceed.

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

Today, you will hear from our President and Chief Executive Officer, Tom McInerney; followed by Marty Klein, our Chief Financial Officer. Following our prepared comments, we will open the call up for a question and answer period. In addition to our speakers, Kevin Schneider, President and CEO of our Global Mortgage Insurance Division, and Dan Sheehan, Chief Investment Officer will be available to take your questions.

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

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

Given the level of interest for today's call, we ask that callers limit themselves to one question and one follow-up. Should you have questions, please reenter the queue. And now I'll turn the call over to our CEO, Tom McInerney. 34

TOM MCINERNEY, PRESIDENT & CEO, GENWORTH FINANCIAL INC: Thank you, Amy, and good morning, everyone. Today I will provide an overview of the quarter's results, along with an update on our strategic review. But first, let me address the recently announced finalization of US Private Mortgage Insurer Eligibility Requirements or PMIERs.

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

For Genworth, a mix of adverse market and currency changes, primarily related to Mortgage Insurance Canada, combined with a reduction of captive reinsurance benefits, offset the reduced capital requirements, and resulted in a capital need within our anticipated range of $500 million to $700 million. We expect the US mortgage insurance to be one of Genworth's best reporting businesses in the future, and we remain committed to being compliant with PMIERs by the effective date.

Currently, we believe a mix of reinsurance and holding company cash makes the most sense to fund the capital need. The ultimate mix will depend upon final reinsurance terms and conditions, and the level of excess cash at the holding company.

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

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

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

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

In-force premium rate increases and benefit reductions are a critically important component of how we manage our overall long term care business. With the 2012 rate actions now largely complete, going forward, we plan to focus on three quarterly metrics which can be used to measure progress against our expectation for additional annual incremental premiums, or equivalent benefit reductions.

We will track and disclose quarterly, new filings submitted, filings approved, and the earnings impact of [implemented] rate increases. Overall, we are encouraged with our first quarter results, and remain focused on initiatives aimed at strengthening and improving our businesses.

With that, let me turn to our strategic review. We are currently focused on three strategic imperatives, strengthening our businesses, simplifying our portfolio, and increasing financial flexibility and financial strength. Our review included a thorough evaluation of every business; its market position, competitive landscape, regulatory environment, future earnings growth, and ROE potential.

Balancing all these criteria, we have concluded that the US and Canadian mortgage insurance businesses offer the most attractive combination of top line growth, earnings growth, and return profile of any of our businesses. While our mortgage insurance business in Australia is also attractive, with solid earnings and a strong capital position, we continue to evaluate our ownership in this business, as we consider our strategic imperatives. But we also recognize, there are benefits of continuing to hold a majority position. 34

Moving to long term care, the prospects for this business remain challenging and complicated. We remain in this business for two primary reasons. First, maintaining a strong market presence has and will continue to significantly influence both in-force premium rate actions and needed regulatory changes. And second, our leadership position, combined with a growing social need for long term care financing options provide an attractive business opportunity.

Each step in our three-part long term care strategy was established to address the specific challenges of each generation of in-force business, and we believe it is our current best course of action to fix this business. Based on discussions with regulators and our rate action track record, we believe we will continue to make good progress against our long term care strategy, but it will take a number of years to move the older blocks closer to breakeven, and newer blocks closer to original pricing. With regard to new long term care business, we believe our PC Flex 3 product will generate returns in the 15%-plus range, even with the more stringent severity assumptions, given our recent comprehensive claim review.

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

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

As we discussed last quarter, we have engaged external strategic and financial advisers to help us assess our strategy, and the various strategic options we might pursue. Our Board and leadership team have been actively engaged with these advisers, and they have been instrumental in broadening our perspectives, and helping us clarify the best path forward to achieve our end goal of positioning the Company for future success. While there will be benefits, there will also be challenges and trade-offs along the way, such as debt levels and terms, tax considerations, and the views of regulators and rating agencies.

In that context, we remain committed to making the best decisions for all stakeholders, and continue to work with a strong sense of urgency. This will be a multi-phased process, and we will provide updates at the appropriate time. Now, let me turn it over to Marty to cover the quarterly results in more detail.

MARTY KLEIN, EVP, CFO, GENWORTH FINANCIAL INC: Thanks, Tom. Good morning, everyone. Today I will discuss our first quarter results, as well as perspectives on some factors influencing long term care performance going forward.

As shown on slide 3 of the earnings summary, we reported net operating income of $156 million, and net income of $154 million for the quarter. We saw solid results in most of our businesses, reflecting continued strong loss ratios in our Global Mortgage Insurance division, that were partially offset by unfavorable foreign exchange, and favorable mortality in the US Life Insurance division. Global Mortgage Insurance had another good quarter as shown on slide 4, reporting net operating income of $116 million, up versus the prior quarter, and also up versus the prior year when adding back the non-controlling interest impact of the Australia IPO in the quarter.

Let's cover Canada on slide 5 first, where operating earnings were $40 million for the quarter, up $4 million from the prior quarter. We saw modest sequential increase in home prices, while the national unemployment rate increased slightly versus the prior quarter to 6.8%. Flow NIW was seasonally lower, but up versus the prior year, from a larger originations market and share progression. 34

The loss ratio decreased 4 points from the prior quarter to 22%, from fewer new delinquencies net of cures. The loss ratio was up slightly versus the prior year, from higher averages reserved per delinquency related to certain regions, partially offset by fewer new delinquencies net of cures.

Turning to Australia on slide 6, operating earnings were $30 million, down $3 million versus the prior quarter. As in Canada, macroeconomic conditions were generally stable in the quarter, as the national unemployment rate was 6.1% at quarter end, and overall home prices experienced modest gains sequentially. New delinquencies were higher and cures were lower sequentially, as is typical in the first quarter of the year.

During the quarter, the Australia business recorded a $7 million pre-tax receivable for expected recoveries related to paid claims. Based on a history of successful collection activities over the last few years and the current economic conditions, an expected recovery rate has been established, and recovery receiveable related to claims paid was therefore recorded. The establishment of this receiveable impacted the loss ratio favorably by 9 points, with the loss ratio coming in at 15%.

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

In Australia, lender relationships are governed by contracts which come up for renewal as part of the normal course. We are currently in a RFP process with one of our larger lender customers whose contract is up for renewal later this year. Finally, we estimate the effective tax rate for Australia in 2015 to be between 30% and 35%, up from 22% in 2014, given that we are no longer asserting our intent to permanently reinvest earnings in Australia, as we evaluate our strategic options.

Moving to slide 7, and US MI, net operating income was $52 million for the quarter, up $31 million from the prior quarter. The loss ratio for the quarter was 33%, and reflected seasonally lower new delinquencies, and favorable net cures and aging of existing delinquencies.

NIW was seasonally down from the prior quarter, but benefited as the business increased its single premium lender-paid new insurance written, reflecting its selective participation in this market. The future volumes of this product will vary, in part depending on the evaluation of the risk return profile of these transactions.

NIW was up from the prior year, from a larger originations market, higher refinance activity, and an increase in market share to approximately 15%. At quarter end, 58% of the risk in-force is composed of 2009 and forward books of business. We anticipate this percentage will grow to between 60% and 70% by the end of this year.

Turning to slide 8, regarding capital in our primary MI platforms, we had solid and improving levels in our primary platforms in the quarter. The prescribed capital amount or PCA ratio in Australia is estimated at 163%, up from the prior quarter from continued strong statutory income, and AUD100 million increase in reinsurance, that was partially offset by dividends paid to shareholders. The Australia business continues to evaluate potential capital management initiatives that would improve its ROE.

To that end, GMA received regulatory approval for the potential issuance of up to AUD250 million of subordinated notes that would qualify as Tier 2 capital. The decision to issue these notes has not yet been made, and will be subject to business and market conditions.

For Canada, the minimum capital test or MCT ratio is estimated at 233%, up 8 points from the prior quarter. Approximately half of the increase related to the implementation of the revised MCT guidance that was effective January 1.

As Canada announced last night, the Toronto Stock Exchange accepted the business' intention to pursue a share repurchase through a normal course issuer bid. Genworth Financial currently plans to participate in this normal course issuer bid, ultimately benefiting cash at the holding company and within US MI, and will keep our overall ownership percentages at their current levels. US MI at quarter end, the risk-to-capital ratio for GMICO was approximately 13.8 to 1, down from 14.3 to 1 in the prior quarter from an increase in statutory income. 34

Turning to the US Life Insurance division as shown on slide 9, net operating income was $81 million. The long term care insurance net operating income in the quarter was $10 million. The results benefited from favorable mortality, which drove higher claim terminations, as we have seen in the first quarter for the last several years.

This was partially offset by higher severity on new claims, where we had a higher mix of claims with higher daily benefit amounts. The quarter also included net unfavorable adjustments of $7 million.

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

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

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

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

Third, we are also addressing the projected pattern of profits followed by losses. As you may recall from the last quarter, the loss recognition testing margin on our block written since late 1995, were the H Gap block, was a positive $2.3 billion on a GAAP basis.

However, given the new claims severity in-force rate action assumptions, the earnings over the projection period display a pattern of profits for the next 15 years or so, followed by losses thereafter. The profit period has a present value of approximately $3.5 billion, while the present value of the losses is a negative $1.2 billion.

During the quarter, we developed a methodology to accrue for these future losses. We are essentially setting aside a portion of pre-tax marginal profits on the H Gap block, and a reserve to fund projected losses in the future. The portion of pre-tax marginal profits is roughly the ratio of the present value of future losses, divided by the present value of future profits, or approximately one-third.

Given the low level of earnings in the quarter on this block, there was essentially no impact on our results. The provision for this reserve is expected to increase as future in-force rate actions benefit results.

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

During the quarter, we evaluated our underlying assumptions, and concluded that no changes were needed at this time, and therefore did not unlock again. In the quarter, this block had minimal marginal income. 34

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

Moving to slide 12, operating earnings in life insurance were $40 million for the quarter, up from $1 million in the prior quarter, which had a $32 million unfavorable reserve correction. Mortality experience was favorable in aggregate versus pricing, in line with the prior quarter, and favorable versus the prior year.

During the quarter, we completed a reinsurance transaction that enabled us to lower our financing costs and excess reserves on a term insurance block by about $15 million pre-tax annually. This transaction had a minimal reduction on earnings in the current quarter. For fixed annuities on slide 13, earnings were $31 million, up from prior quarter from favorable mortality and lower lapses.

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

Shifting to slide 15 in the corporate and other division, the net operating loss for the quarter was $41 million. International protection reported net operating income of $0 in the current quarter, up from a loss of $4 million in the prior quarter. As a reminder, the prior quarter included approximately $4 million of unfavorable items.

Runoff earnings were lower by $5 million, compared to the prior quarter, related to less favorable taxes, partially offset by equity market growth. Lastly, we had tax favorability in corporate and other in the prior quarter that did not recur.

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

As shown in slide 17, at the holding company, we continue to maintain significant liquidity, with available cash and liquid assets of over $1 billion, and included $132 million of dividends paid primarily from our international mortgage insurance subsidiaries, representing a buffer of approximately $585 million in excess of 1.5 times debt service and restricted cash, and well above our $350 million risk buffer. I would note that we intend to refresh our shelf registration statement shortly, as it would otherwise expire.

However, given our significant liquidity at the holding company, combined with the strategic initiatives we are pursuing, we have no current plans to raise equity or debt. Our strategic initiatives are being developed with debt reduction as an important goal.

In addition, the sales process for our lifestyle protection and insurance business is proceeding well so far, and net proceeds from the sale would ultimately provide additional cash to the holding company. As a reminder, given current book value of that business, we anticipate a significant loss on sale.

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

Questions and Answers

OPERATOR: (Operator Instructions)

We'll go first to Nigel Dally with Morgan Stanley.

NIGEL DALLY, ANALYST, MORGAN STANLEY: Great, thank you. Good morning. So with Australia, you touched briefly on this in your prepared remarks, but hoping to get some additional details. Since one of your key customers, National Australia Bank is putting their mortgage insurance contract out to bid, so hoping to get some details on how large a customer are they are for you, and perhaps just some overall commentary on the competitive conditions? 34

KEVIN SCHNEIDER, PRESIDENT & CEO, GLOBAL MORTGAGE INSURANCE DIVISION, GENWORTH FINANCIAL INC: Hey, good morning, Nigel. This is Kevin. We, the National Australia Bank probably represents roughly 10% of our new insurance written in Australia, and this is a normal course negotiation. Their contract with us, we've had in place for some time, has an expiration date I think in early fall, September or October type time frame. And it would be normal for us to enter into a negotiation with them, and they put out an RFP that we will be working closely with them to try to renew that business in place.

NIGEL DALLY: Thank you. Just secondly, PMIERs, in the past, you talked about reinsurance filling the majority of the need. Now it seems like you are talking about holdco cash as well. Should we expect holdco cash to account for the majority there, just trying to get some color on the likely mix between holdco cash and reinsurance?

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

NIGEL DALLY: Okay, thanks, Tom.

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

JIMMY BHULLAR , ANALYST, JPMORGAN: Hi, just first, can you comment if you were to sell GLAIC, and there have been a lot of news reports about that, how much of the capital you'd have to leave in GLIC, and how much could you move up to the holding company?

And then secondly on long term care, I think Marty mentioned in his remarks that you expect earnings in 2015 to be modest. So does modest mean that 1Q is a good run rate, or would you expect earnings to decline from there?

And then, related to LTC, can you talk about just potentially unlocking in the long term care block, do you expect to adjust your reserves every single quarter going forward, or would you do a more detailed review, maybe on an annual basis?

TOM MCINERNEY: So Jimmy, I'll take the first of your three questions, and ask Marty to talk about the next two. I talked about life and annuity and how we see that. We have solid positions, but we're not a leader in any of those businesses, and clearly, there's a lot of intense competition for life and annuity, a lot of companies in the US. And so we're looking at all of that.

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

JIMMY BHULLAR : Okay.

TOM MCINERNEY: I'll turn it over to Marty for the other two questions you had.

MARTY KLEIN: Jimmy, it's Marty. So on the other couple of questions, one was, we expect long term care earnings to be modest. Frankly, given a lot of the moving parts that we tried to talk about in the prepared remarks, whether it's the new claim reserve factors which depress earnings in the current period, in which new claims come in, but have a presumed better result in future quarters, we have got potentially more volatility in the [P GAP] block and I'll come back to that. 34

Got this profits, followed by losses accrual. We've got the rate-action dynamics, where we expect that to begin to taper off. But I think the -- as we roll out, as people accept rate increases, the behavior and the timing of that is still pretty volatile, and those reserve releases are hard to predict with certainty quarter to quarter.

So I'd say it's very hard to predict a quarterly run rate. I think they are going to be modest. I would describe this quarter as modest. But I really am reticent to give you a number, but I would call the quarter modest profitability, and we kind expect it to be modest. And it's going to bounce around, there would be some quarters that are going to be better, and some quarters that could be worse, given a lot of these dynamics here.

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

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

JIMMY BHULLAR : And then the main thing, there would be obviously, just the claims experience that you are seeing, but then also any changes in your assumptions about rates and stuff, right?

MARTY KLEIN: Yes, I think that's right.

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

MARTY KLEIN: You mean interest rates?

JIMMY BHULLAR : Yes, interest rates or even claims experience.

MARTY KLEIN: Yes, I think that's right. When we think about margin testing, which really drives the unlocking, it's a really longer-term view of interest rates. So little movements quarter to quarter really aren't going to drive a big change, or obviously if there's a huge change in macroeconomics, US economics that we look at, and that gives us a totally different view longer term, that would be an impact.

And I would also say, claims experience, when you have 50,000 claims on the books roughly, it does move a lot quarter to quarter potentially. So you kind have to take any quarter, whether it's really good or really bad, with a bit of a grain of salt, in the context of looking at 20 years of claims experience.

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

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

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JIMMY BHULLAR : Okay, thank you.

MARTY KLEIN: Yes.

OPERATOR: Thank you, we'll take our next question from Ryan Krueger with KBW.

RYAN KRUEGER, ANALYST, KEEFE, BRUYETTE & WOODS: Hey, thanks, good morning. First one for Tom. Last quarter you mentioned a debt reduction target of $1 billion to $2 billion. Is that still the right way we should think about what you're looking at going forward?

TOM MCINERNEY: Yes, Ryan, we haven't changed that view.

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

TOM MCINERNEY: No, that would be the notional amount of debt we would want to take down. So obviously, any prepaid things would be in excess of that.

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

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

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

MARTY KLEIN: Yes, we are still working through that, Ryan, it's Marty. I think that we have been looking at the economic capital behind it, which is really different than what kind of way RBC works. Particularly RBC doesn't have an appropriate interest rate risk component to the interest rate risk that's in long term care. We also want to look at it from a practical standpoint.

We want to make sure that we have enough capital in the business to absorb some of the volatility that's in the business from a statutory earnings volatility standpoint, and so forth. So we're looking at it, and I think it's going to come in the form of either a higher RBC ratio, or it could come in the form of an RBC ratio plus a buffer. I think ultimately, we are working through it, looking at it through those lenses. And also, as we work through some of the strategic actions that Tom spoke about, and we look at the businesses that we have in the US life business, at the end of all that, we want to look at that business profile as well.

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

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

RYAN KRUEGER: Okay. All right, thanks a lot.

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

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

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MARTY KLEIN: Yes, we actually write life and annuity out of GLIC, [GLICNI] the New York company, and GLAIC, the principal life and annuity business, the majority of it is in GLAIC.

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

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

TOM MCINERNEY: Yes, what I would add to that, Sean -- it's Tom -- is that obviously, we're looking at the pluses and minuses of some of these strategic actions that we could take. But also, we are in discussions with the rating agencies and with regulators and part of the overall strategic decisions, in addition to the straight financial aspects of it will be, what does the Company look like after the step? How would that be perceived? Where are the growth prospects? What's the volatility?

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

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

TOM MCINERNEY: Sean, I don't know how to necessarily answer that. I would say that, obviously, it's very important to our regulators that we appropriately capitalize and reserve our long term care business. So whatever we decide to do strategically, working -- we have very good relations with all of our regulators, including the states in the US, and I think we would want to maintain that. So looking at long term care, I think it's important, going forward, that we capitalize it correctly, consistent with what the regulators would like us to have in the business.

SEAN DARGAN: Okay, thank you.

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

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

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

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

SUNEET KAMATH: Okay, but given you that already talked about potentially selling GLAIC, can we assume you've already had some preliminary discussions with regulators or is that a stretch?

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

SUNEET KAMATH: Okay, got it. And then, the follow up is on BLAIC, you had mentioned your expectation to repatriate that this year, so two quick ones on that. First, is that your decision, or is that something that the regulators or rating agencies are prompting you to do? And then second, is there a sense of what incremental -- or essentially, where you want to run that, in terms of an RBC 34 once it is all consolidated? Just want to get a sense of if that's a source of additional capital need once you repatriate it? Thanks.

TOM MCINERNEY: I'll take the first part of that, and then ask Marty to talk about the RBC impacts. The decision to repatriate BLAIC is our decision. There's no pressure from the regulators specifically on that.

There is a general view of state regulators in the NAIC. There also -- the fed is starting to weigh in with, not Genworth particularly, but the entity, the insurance companies that they oversee, and they have suggested there are issues with captives in the reinsurance. I think from our perspective, we believe it is very helpful for investors in the market to understand the long term care as a total book of business.

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

Also, the last point, you may be aware that Bermuda is working on its own regulatory framework. They appear to be moving towards a solvency II type of structure. And so again, as they go forward with that, we think in general, the broader benefits in the historical past for Bermuda aren't as much. So we think, for all those reasons, it makes sense.

But it's really our decision to do it, and not anything that the regulators are asking us to do. On the RBC, Marty, if you want to just address that.

MARTY KLEIN: Sure, Suneet. Right now, BLAIC, as I said, has a RBC of around 340%. To Tom's point, that used to be managed years ago at a much lower number. But we have been managing at a much higher number in the recent years.

Capital behind that business, excluding LPI and other things, the capital just behind the long term care business is around $800 million. Obviously, at the time we repatriate it, is at the time we do it, going to have a bit of a dilutive impact on GLIC's RBC. It is going to be a function of when we do it, and obviously when we do it, whatever the RBC looks like in GLIC, if we've changed the profile of GLIC at that point in time or not, that will be a consideration. It will be a function of the amount of capital that is repatriated, that goes up with the long term care block.

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

SUNEET KAMATH: All right, thanks.

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

STEVEN SCHWARTZ, ANALYST, RAYMOND JAMES: Hey, good morning, everybody. On a couple of different things. Tom or Kevin maybe, can you discuss the PMIERs and the decision to meet the standards immediately as opposed to possibly delaying? I'm just wondering if it is really necessary, and if possibly delaying could actually save money for shareholders?

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

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

MARTY KLEIN: We haven't announced a kind of target for it. I think, as Tom indicated in his remarks, I think starting next quarter, we are going to come up with a new framework on how to talk about our rate actions.

We had the 2012 rate actions, which were pretty dramatic, and at the time we launched those, we gave folks a sense of what our expectations were. I think at the time it was [$200 million] to [$300 million]. We refined it later to [$250 million] to [$300 million]. We also said at the time, it takes many years to implement, which is turning out to be the case.

And as Tom indicated, we now have hit that ZIP code of the expectations with a few more states to go. As we are playing forward on a lot of the future rate actions, we need to make sure we are giving investors a way to think about the progress we are making on those filings, and particularly, the progress we are making versus kind of the margin testing that we did last year, which I know investors are very focused on. So we'll kind of lay that out for folks in the next quarter.

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

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

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

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

MARTY KLEIN: We're going to apply it to marginal profits which really, think in terms of kind of pretax profits before overhead expenses are applied, and then looking only at the H GAP block. And then, we'll take roughly a third of those profits and accrue that liability every quarter. As it happens, this quarter, the H GAP block didn't have much in the way of positive profitability.

So we didn't really technically set up the accrual this quarter, because it would have been de minimis. But that's the way it will work going forward. So think in terms of that historical GAP book as it makes money, roughly a third of that on a marginal basis before overhead, will be set aside to fund this accrual over time.

STEVEN SCHWARTZ: Got it. Okay, thank you.

TOM MCINERNEY: Yes.

OPERATOR: Thank you, we'll go next to Colin Devine with Jefferies.

COLIN DEVINE, ANALYST, JEFFERIES & CO.: Good morning, I had a couple questions this morning. First off, just to recap on what I think I've heard, is that US and Canadian MI, you're absolutely keeping long term care. You're fixing up, and maybe it's TBA -- sorry, TBD, to be determined. And then everything else potentially could get sold. Just confirm that. Secondly, Marty, if we look across the business for the quarter, what would you have considered sort of Genworth's overall core earnings run rate? Trying to think of a base line going forward from here.

The third one would be on long term care, and the potential for a closed block. Is that still something you are considering? And then finally, obviously, you do not need another rating downgrade. S&P did put you on criteria watch, through their new capital model. How do you get that resolved? Is bringing back BLAIC going to do that for you, or is something you may need to raise capital to address? Thanks. 34

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

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

We are looking on life and annuity, or GLAIC. The issue there is, we have solid positions, but we're not a leader. There are 850 life companies that compete for life and annuity business. So it clearly puts pressure on all of us in the marketplace, in terms of returns.

And then, we have a particular issue, in that relative to some of the other top life and annuity players, our ratings are lower, and particularly with S&P and Moody's. On the long term care side, while we do think the ratings have had an impact in our financial institutions channel, most of the LTC business is sold through BGAs and IMOs. They focus on an invest rating that is A-, which is certainly an acceptable rating. And we're also compared to competitors, we're the leader in long term care. And so, from a competing perspective, it's a different place than we are with life and annuity.

And I do think -- as I said, we are looking at a variety of options. One of the options that you raised, and I'll ask Marty to comment on your other three points, but that one too. We do look at, and we have looked over time, does it make sense to separate the older blocks, the four older blocks which are the most problematic from the other blocks.

There are pluses and minuses to doing that. I think, most importantly, whether we do that from a US GAAP accounting perspective or not, we still have the old blocks, and we still need to improve them. And that is an extremely important part of our strategy is to realize those very large premium increases and benefit reductions that we're shooting for. So Marty, over to you, for the rest of Colin's points.

COLIN DEVINE: Yes, Tom, and let me interject for one sec, but I think also there is a lot of confusion out there, but I'm free to clarify that, even if you did go the closed block route, from a regulatory perspective that really has no impact on your ability to get rate increases, just to get that concept, correct?

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

COLIN DEVINE: Yes, okay. Thanks.

MARTY KLEIN: Colin, it's Marty, let me try to take your other questions. On the run rate question, we did have a couple of, I guess I'll call them nonrecurring items. We had the one in long term care that in aggregate was $7 million adverse after tax. Then we had in Australia, a good guy, that borrower's recovery accrual that was [$7] million pretax. So, those are really a couple things that I would call out specifically.

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With respect to the performances of our businesses and how to think about that over the course of the year, I'd say in the US Life division, we had good mortality, and it helped things across the board in all three of the businesses in US Life. I think that -- while that would be great, if it persisted all the way through the quarter, I don't know if that's likely to happen. I think that the mortality we saw in the life insurance business was pretty comparable to what we saw in the fourth quarter. But it does move around. I think that the likelihood of having good mortality help all three of those businesses throughout the year, is not necessarily likely. It would be great, so I think we benefited from that this quarter.

In the mortgage businesses, as I think folks know, we do have seasonality, and in particular US MI, which is obviously in the stages of a very [big] recovery year over year, as they add new business and have the old stuff burn off. But all things being equal, the first half of the year tends to be better than the second half of the year due to the seasonality in that business. So those are some of the things that I think I would make note of.

On your question regarding S&P, S&P changed the ratings methodology a couple years ago. And as they have been looking at Genworth, it has become apparent to us that the level of capital is probably not as important to them. This is my words, not necessarily theirs, as maybe as it used to be.

In fact, we have, in our US Life company, 450% RBC. We were well into the 400%s. And if you think of our S&P rating in the US Life company versus where RBC is, it's very inconsistent with where S&P had it a few years ago. I think from S&P's standpoint, it's not so much an issue about the level of capital, it's really the volatility in earnings and capital from a long term care business. And that's the thing that takes a longer time frame to rectify, which obviously we are working on with rate actions and trying to derisk the block as much as we can. But that is a longer issue.

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

The other things important to us about the S&P ratings, is the ratings on the mortgage businesses, but they have really increased the notching with the last ratings action, to five notches. And so, with the ratings we currently have in Australia and in Canada, those are certainly sufficient ratings for us to get the NIW, and the business that we want to get.

And obviously, we are playing through with the US MI on PMIERs, and as we play that through that will hopefully have beneficial impact on the S&P rating there. And I think Tom largely addressed the other question you had on the older block issues. So I don't know if I have much to add on that one.

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

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

COLIN DEVINE: Thank you very much. As much as I know you would miss the earnings calls.

OPERATOR: Ladies and gentlemen, we have time for one final question from Scott Frost with Bank of America Merrill Lynch.

SCOTT FROST, ANALYST, BOFA MERRILL LYNCH: Hi, thanks for taking my questions. Just touching on the PMIERs issue again, without going into the amount of the mix of cash and reinsurance. Can you give us an idea of the limit of cash you expect to use? In other words, can you say, we don't expect the cash portion of this to be greater than X?

TOM MCINERNEY: I can't give you that, because we are -- well, we made a lot of progress in the reinsurance transactions. Now that the PMIERs rules are final, we are finishing up the final negotiations with the reinsurers. We think they will be good contracts, and so once we finish that, that's the first priority is to use reinsurance, then whatever else we need, we'll do from cash from the holding company.

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

TOM MCINERNEY: Our ability to pay dividends is really dependent on two things, both on a statutory basis and a PMIER requirement. And so, on a statutory basis, it's based upon -- so the greater of prior-year net income or 10% of policyholder surplus. Going forward, we expect sustained earnings to provide statutory dividend capacity. But therefore, PMIERs really becomes a constraint to dividend paying.

And as the legacy books continue to pay off, we would expect our PMIERs sufficiency to improve, based upon the new business, and ultimately that gets you to when you can really deal with the dividends. But just hitting compliance doesn't necessarily just open up the door to allow you to hit the dividends. We are a couple years out.

SCOTT FROST: Okay. And on the US Life business, I'm trying to figure out -- let's -- you say your conversations with regulators have typically been over rate, which would make sense since you haven't sold US Life. But if we stipulate that you do get some sort of bid for GLAIC, how would the conversation go with regulators do you think? In other words, you are going to go in and say, I want -- I need additional rate. I need to charge policyholders more. By the way, can I upstream money to the holdco from this proceeds of this asset I just sold?

TOM MCINERNEY: Those are different things. So we have three state regulators overseeing our domestic life businesses. GLAIC is domiciled in Virginia. So any sale of GLAIC, if that's what we decided to do, has to be approved by Virginia, as well as the owner of GLAIC is GLIC, and GLIC is domiciled in Delaware. So the Delaware regulator would have to approve that as well.

And then, GLAIC does own a piece of [GLICNI], our New York subsidiary, so New York would have to approve that. So all three regulators, one would -- whether we're selling blocks, or the legal entity would have approval of the transactions. And then, the proceeds would also need, because the proceeds would be in excess of the regular dividend capacity. So it wouldn't be an ordinary dividend. We -- and any time you look to take something other than the ordinary dividend out, you need the appropriate regulatory approval.

So, the discussions with the regulators will be around whatever we decide to do in terms of transactions. I think what I said separately is, we do have detailed and ongoing discussions with all the regulators, those three, as well as all the rest of the states on the long term care business. I mean, it's a separate set of conversations, but I just would say that we have very close relationships. We talk to all -- clearly, the three domiciliary states, but also the other states.

SCOTT FROST: Let me, I guess, put it another way. Do you think the request to pay up proceeds to the holding company from a life sale, if any, would jeopardize or impact your ability to get rate increases on long term care?

TOM MCINERNEY: No, I think they are separate points.

SCOTT FROST: Okay.

TOM MCINERNEY: The increases on long term care are based on -- these are guaranteed renewable products, long term care. Regulators should grant us actuarially justified increases. So the LTC rate increases are based on that.

We have always said that, and I think if you look at some public comments of various insurance commissioners that have made in other forums, they have said, clearly, we, regulators tend to be more open-minded on LTC premium increases for companies that are still in the business and writing new business. Because obviously, that does take off some of the financial burden on the states in terms of their future Medicaid budgets. 34

But those are really, those will be separate conversations. It will be with the same regulators, but separate conversations.

SCOTT FROST: Okay, thanks. And then, I guess regarding the nuclear option question. You had said that there would -- you had alluded to the regulatory oversight that may preclude that. Is that the right interpretation of that comment?

TOM MCINERNEY: Yes. I didn't frame the nuclear option though. That was Sean, I guess. But I would say, clearly, in terms of -- I think his question was around capital into long term care, clearly as part of their agreement to give us rate increases, they also require demand, certain levels of capital in the business. And so, we would continue to have to work with them to appropriately capitalize the LTC business.

We have done that. I think they have been pleased so far with the fact that we have been able, despite all the reserve actions we took in the third and fourth quarter, to maintain very sizable RBC ratios in the 450% range. But going forward, clearly that would be important to them.

SCOTT FROST: Well, let me make sure I'm putting this the right way, too. Is it your sense that the regulators that oversee your, for example, US MI business, do you think they are sympathetic to, or cooperative with regulators that oversee your long term care business? Or is it something that they don't worry about too much?

TOM MCINERNEY: So there is a supervisory college, and that is led by the insurance commissioner of Virginia, and that supervisory college -- and it is typical in global insurance companies like Genworth, they oversee -- the college includes all the regulators, so this would be the Australian, Canadian regulators, the MI regulators in the US, as well as the life insurance regulators.

So all of them work together, and we do maintain excellent relations with all of them, and we're keeping all of them informed about the different strategic options we're considering. So I would say they work well together, and we work well with them together. And so, we clearly would want to make sure that all of the various regulators that oversee us are comfortable with whatever steps we take.

COLIN DEVINE: Great, thank you very much.

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

TOM MCINERNEY: Thank you very much, Trisha. Again, I want to thank all of you for being on the call today. We appreciate that. We hope you found the discussion helpful and have a better sense of our strategy, the focus and our priorities. I hope what came through was a strong sense of urgency that we have to move forward and reshape the Company.

We are working closely with some of the best external financial and strategic advisers. I think we're making good progress on those strategic options, and we understand the critical points of getting Genworth back on track as quickly as we can. We do appreciate your questions, your time today, your interest in the Company, and we remain committed to providing you updates, as appropriate going forward. So thank you all, again, very much.

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

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