

## Business Update

*Second Quarter 2012*

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

### Highlights of our business performance include:

- We reported net income<sup>1</sup> of \$76 million, or \$0.16 per diluted share, compared with a net loss of \$136 million, or \$0.28 per diluted share, in the second quarter of 2011. Net operating income<sup>2</sup> for the second quarter of 2012 was \$80 million, or \$0.16 per diluted share, compared with a net operating loss of \$113 million, or \$0.23 per diluted share, in the second quarter of 2011.
- Our Insurance and Wealth Management Division's net operating income was \$79 million, compared with \$81 million in the prior quarter and \$138 million a year ago. The decline from the prior year was driven by the U.S. Life Insurance, International Protection, and Wealth Management segments.
- Our Global Mortgage Insurance Division's net operating income was \$51 million, compared with a net operating loss of \$36 million in the prior quarter and a net operating loss of \$177 million a year ago, benefitting sequentially from improved loss ratios across our U.S., Australia, and Canada Mortgage Insurance businesses.

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

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

<sup>2</sup> This is a financial measure not calculated based on U.S. Generally Accepted Accounting Principles (Non-GAAP). See the Use of Non-GAAP Measures section of Genworth's Q2 earnings press release for additional information.

## **We focus on our strengths and the best opportunities for profitable growth.**

### **Insurance and Wealth Management Division**

In the second quarter of 2012, our Insurance and Wealth Management Division's net operating income was \$79 million, compared with \$81 million in the prior quarter and \$138 million a year ago. The decline from the prior year was driven by the U.S. Life Insurance, International Protection, and Wealth Management segments.

#### **U.S. Life Insurance Segment**

- Our U.S. Life Insurance segment's net operating income remained unchanged sequentially at \$64 million and was down from \$100 million in the prior year.<sup>3</sup>
- As part of the company's strategy to actively manage new business for improved profitability and statutory earnings, we recently announced a combination of targeted product changes and price increases in life insurance and long term care insurance.
- In the third quarter of 2012, we plan to request another round of long term care insurance in-force premium rate increases with the goal of achieving an average premium increase in excess of 50 percent on the older generation policies and an average premium increase in excess of 25 percent on an earlier series of new generation policies over the next five years. Subject to regulatory approval, this premium rate increase would generate approximately \$200-300 million of additional annual premiums when fully implemented.
- We estimate the segment's consolidated RBC ratio to be approximately 405 percent<sup>4</sup>, down from 425 percent at the end of the first quarter of 2012 from equity market and interest rate declines and an extraordinary cash dividend of \$100 million which was paid in April to the holding company.

#### **International Protection Segment**

- Our International Protection segment's reported net operating income was \$3 million, compared with \$5 million in the prior quarter and \$25 million in the prior year. Results in the prior quarter were impacted by an unfavorable premium tax adjustment related to a tax court ruling and lower tax benefits.
- This segment's reported loss ratio increased one point from the prior quarter and eight points from the prior year to 24 percent and the underwriting margin<sup>5</sup> decreased six points from the prior year and one point from the prior quarter to 13 percent. Improvements seen in certain markets were more than offset by profit sharing in those markets, lower premiums, and an increase in reserves in certain Southern European markets where the unemployment rate continues to rise and profit sharing is lower.
- The regulatory capital ratio decreased three points to 357 percent<sup>4</sup>, but remains well in excess of regulatory requirements.

#### **Wealth Management Segment**

- Our Wealth Management segment's net operating income was \$12 million, compared with \$12 million in the prior quarter and \$13 million in the prior year.
- In July 2012, we announced an expansion of our investment platform for independent financial advisors in response to the current market environment and investor needs, adding eight new strategies to address challenges faced by financial advisors and their clients.
- On April 2, 2012, we completed the sale of our tax and accounting financial advisors unit, Genworth Financial Investment Services (GFIS), to Cetera Financial. We recognized a realized gain of \$15 million related to the sale in the second quarter of 2012 that has been included in net income but not in net operating income.

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<sup>3</sup> First quarter of 2012 includes the loss on the life insurance block sale transaction of \$41 million.

<sup>4</sup> Company estimate for the second quarter of 2012, due to timing of the filing of statutory statements.

<sup>5</sup> See "Definition of Selected Operating Performance Measures" in Genworth's Q2 earnings press release for definition of underwriting margin.

## Global Mortgage Insurance Division

In the second quarter of 2012, our Global Mortgage Insurance Division had a net operating income of \$51 million, compared with a net operating loss of \$36 million in the prior quarter and a net operating loss of \$177 million a year ago, benefitting sequentially from improved loss ratios across our U.S., Australia, and Canada Mortgage Insurance businesses.

### International Mortgage Insurance Segment

- Our International Mortgage Insurance segment reported operating earnings of \$76 million, compared with \$7 million in the prior quarter and \$78 million a year ago.
- In Canada, flow new insurance written (NIW) was up 63 percent<sup>6</sup> sequentially from seasonal variation and down 9 percent<sup>6</sup> year over year from a smaller origination market. In addition, we completed several bulk transactions, consisting of low loan-to-value prime loans, of approximately \$13.1 billion reflecting our selective participation in this market.
- In Australia, flow NIW was up 8 percent<sup>6</sup> sequentially and up 24 percent<sup>6</sup> year over year as the current year origination market was larger—primarily from refinancing activity.
- We continue to maintain sound capital positions across the Canadian and Australian businesses.
- Other Countries had a net operating loss of \$9 million, in line with the prior quarter.

### U.S. Mortgage Insurance Segment

- Our U.S. Mortgage Insurance segment's net operating loss improved to \$25 million, compared with net operating losses of \$43 million in the prior quarter and \$255 million in the prior year. Results in the current quarter included a \$12 million after-tax favorable impact from the termination of an external reinsurance contract.
- Total flow delinquencies of 71,878 decreased 6 percent sequentially and 15 percent from the prior year. New flow delinquencies declined approximately 7 percent from the prior quarter and approximately 21 percent from the prior year.
- Loss mitigation savings were \$162 million in the current quarter and \$320 million through the second quarter of 2012, exceeding the low end of the previously announced full-year loss mitigation savings target of \$300 to \$400 million.
- Flow NIW increased 20 percent over the prior quarter to \$3.6 billion reflecting an increase in overall private mortgage insurance penetration and a larger origination market.
- We estimate the segment's combined risk-to-capital ratio as of June 30, 2012 to be 29.5:1.<sup>4</sup>
- Subsequent to the end of the quarter, the North Carolina Department of Insurance granted Genworth Mortgage Insurance Corporation an 18-month extension of the revocable waiver of compliance with its risk-to-capital requirement through July 31, 2014.

## Corporate and Runoff Division

In the second quarter of 2012, our Corporate and Runoff Division's net operating loss was \$50 million, compared with \$14 million in the prior quarter and \$74 million in the prior year.

### Runoff Segment

- Our Runoff segment's net operating loss was \$6 million, compared with net operating income of \$35 million in the prior quarter and \$18 million in the prior year. The segment's results in the current quarter reflected lower tax benefits compared with the prior quarter and prior year of \$15 million and \$14 million, respectively. Excluding the lower tax benefits for the segment, earnings were lower by \$26 million versus the prior quarter and \$10 million versus the prior year—primarily from unfavorable equity market and interest rate conditions impacting the variable annuity business.

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<sup>6</sup> Percent change excludes the impact of foreign exchange.

## Corporate and Runoff Division, cont'd.

### Corporate and Other

- Corporate and Other's net operating loss was \$44 million, compared with \$49 million in the prior quarter and \$92 million in the prior year. Results in the prior year reflected higher taxes. On a pre-tax operating basis, the loss increased modestly year over year.

## We help millions of people around the world secure their financial lives, families, and futures.

In the second quarter, working with our partners:

- Genworth's U.S. life insurance companies paid more than \$895 million in insurance benefits, delivering protection and peace of mind to our life insurance, long term care insurance, and annuity policyholders and beneficiaries.
- Genworth's Global Mortgage Insurance division helped approximately 66,000 people around the world afford to buy a home.
- We facilitated the closing of more than 8,300 mortgage loan workouts through our global homeownership assistance programs, helping borrowers stay in their homes or avoid foreclosure.
- We helped more than 44,000 people maintain regular repayments on their financial commitments through our lifestyle protection insurance program.

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

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

- Our holding company ended the quarter with approximately \$1.2 billion of cash and highly liquid securities, down approximately \$250 million sequentially after paying the debt maturity of \$222 million in June and approximately \$110 million of debt interest payments, partially offset by dividends and sales proceeds, including taxes paid to the holding company of \$193 million that included \$100 million from the Medicare supplement sale and \$73 million from the GFIS sales proceeds. The holding company targets maintaining cash balances of at least two times our annual debt service expense. The holding company has no debt maturities until June 2014.
- We continue to carefully manage our portfolio in a low interest rate environment. Investment income increased modestly, with net investment income of \$846 million, compared with \$832 million in the first quarter. The core yield<sup>2</sup> increased sequentially to approximately 4.7 percent from approximately 4.6 percent primarily from improved limited partnership performance.

## We are passionate about making a difference for our employees, communities, and industry.

- In April, a group of Genworth employees across Europe banded together to run the London Marathon, raising more than £41,000 for prostate cancer support and breast cancer care.
- Our Global Month of Service in June resulted in more than 3,500 Genworth employees around the world volunteering over 11,500 hours to support 233 projects serving 106 organizations in the communities where we live and work.
- Genworth Canada held its Third Annual National Homeownership Week, and through a media partnership with the Toronto Star and other initiatives, provided important information to consumers on topics including financial fitness, home improvements/savings, the benefits of going green, and homeowner assistance.
- Genworth Australia released Streets Ahead: Genworth Homebuyer Confidence Index and the co-sponsored Capital Market Report (with RP Data) to provide consumers and lenders, along with other stakeholders, with a realistic view of the current state of the mortgage markets across Australia and the world.

## **We provide products, services, and support to help our distribution partners meet their customers' needs.**

- We released the 2012 Cost of Care Survey to help financial professionals and families evaluate options to address the increasing cost of long term care. This year's survey included the addition of annual, monthly, and daily calculations as well as a free web-based mobile application for iPhones and iPads with similar functions to the Cost of Care website.
- Our U.S. Mortgage Insurance business launched MyOhMI! – a comprehensive suite of resources to engage and educate the realtor audience about the benefits of Genworth USMI. Designed for co-branding, the associated collateral enables lenders to enhance their relationships with realtors by providing value-added products and services that encourage more prospective borrowers to become homeowners.
- Our Wealth Management team launched a business transition services program designed to help advisors prepare for the future – whether that means growth, succession, or retirement. The program includes planning services, in-depth guides, and consulting to help advisors evaluate their business and position it for maximum valuation.

## **Genworth Quick Facts**

- Genworth Financial, Inc. (NYSE: GNW) is a leading Fortune 500<sup>®</sup> insurance holding company dedicated to helping people secure their financial lives, families, and futures. Genworth has leadership positions in offerings that assist consumers in protecting themselves, investing for the future, and planning for retirement – including life insurance, long term care insurance, financial protection coverages, and independent advisor-based wealth management – and mortgage insurance that helps consumers achieve home ownership while assisting lenders in managing their risk and capital.
- Genworth has approximately 6,500 employees. Our products and services are offered through financial intermediaries, advisors, independent distributors, and sales specialists.
- Genworth Financial, Inc., which traces its roots back to 1871, became a public company in 2004 and is headquartered in Richmond, Virginia. For more information, visit [genworth.com](http://genworth.com).