
Genworth Financial Announces 1Q 2010 Results

By Editor Test *Wed, May 5, 2010*

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Genworth Financial is much healthier than it was a year ago.

The Richmond-based company reported net income of \$212 million in the first quarter of 2010 (before provision for non-controlling interests), compared to a loss of \$469 million in the first quarter of 2009. Net operating income was \$147 million, up from \$14 million a year ago.

Genworth's results in the quarter included net operating income of \$122 million from the Retirement and Protection segment and \$91 million from the International segment. This was partially offset by lower net operating losses of \$36 million in the U.S. Mortgage Insurance (U.S. MI) segment and a loss of \$63 million in Corporate and Other. The impact of foreign exchange on net operating income in the first quarter of 2010 was a favorable \$19 million.

Net income in the quarter included a \$106 million tax benefit related to separation from the company's former parent recorded in the first quarter of 2010.

The company spun off ownership of 42.5% of Genworth MI Canada last fall with an initial public offering (IPO) transaction, raising net income available to common stockholders to \$178 million the first quarter of 2010. On the same basis, net operating income available to common stockholders for the first quarter of 2010 was \$114 million.

Net investment losses, net of tax and other adjustments, decreased to \$42 million from \$483 million in the first quarter of 2009, and decreased on a sequential basis from \$54 million in the fourth quarter of 2009. Net unrealized investment losses, net of tax and other adjustments, declined to \$900 million from \$4.1 billion in the prior year quarter.

Retirement and Protection earned \$122 million compared to \$38 million a year ago. Consolidated U.S. life insurance companies ended the quarter with an estimated RBC ratio of approximately 385%.

Retirement income fee-based earnings increased to \$17 million from a \$27 million loss in the prior year. Results in the prior year were significantly impacted by declines in the equity markets, which accelerated deferred acquisition cost (DAC) amortization and reduced variable annuity income. Earnings in the current quarter reflected equity market growth, lower death related claims and an \$8 million favorable DAC amortization adjustment. Total variable annuity sales increased to \$205 million compared to \$143 million in the prior year from improved equity market conditions.

The retirement income spread-based business had net operating income of \$17 million compared to a loss of \$20 million in the prior year from improved investment income. Earnings in the prior year included a

\$39 million loss from lower valuation of limited partnership (LP) investments. Total spread-based AUM remained flat sequentially ending at \$18.9 billion reflecting the company's targeted annuity strategy and favorable persistency.

Life insurance earnings decreased to \$37 million from \$38 million a year ago as improved investment income and lower taxes were more than offset by less favorable mortality, lower persistency on policies coming out of the post level term period and a \$5 million unfavorable correction related to the calculation of ceded reinsurance premiums.

Total life sales reflected a mix shift to the new more capital efficient product suite as well as lower universal life (UL) excess deposits associated with the low interest rate environment. Sales from the combination of term life insurance and the new Colony Term UL product grew 26% versus the prior year and 9% sequentially. The more capital efficient Colony Term UL product, in late 2009, demonstrated strong producer adoption.

LTC earnings declined \$1 million to \$40 million, as higher net investment income was more than offset by higher claims on old generation policies and a return to lower levels of policy terminations experienced historically. Individual LTC sales increased \$7 million year over year, primarily reflecting growth in overall industry sales. Group LTC sales increased to \$8 million in the quarter from \$1 million a year ago, while linked benefit sales grew to \$11 million from \$5 million a year ago.

Wealth management earnings increased from \$6 million to \$11 million primarily from increased revenue associated with a 41% increase in assets under management (AUM) and also included a \$2 million favorable tax item. Net flows were \$504 million, representing the fourth consecutive quarter of positive net flows. This, combined with favorable market performance, resulted in a \$1.2 billion sequential increase in AUM to \$20.0 billion.

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