GENWORTH FINANCIAL INC
Form 10-K
March 02, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**33-1073076** (I.R.S. Employer Identification No.)
6620 West Broad Street	
Richmond, Virginia (Address of principal executive offices)	**23230** (Zip Code)

(804) 281-6000

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of each exchange on which registered
Class A Common Stock, par value $.001 per share	**New York Stock Exchange**

Securities registered pursuant to section 12(g) of the Act:

5.25% Series A Cumulative Preferred Stock, Liquidation Preference $50 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of February 13, 2009, 433,160,323 shares of Class A Common Stock, par value $0.001 per share were outstanding.

The aggregate market value of the common equity (based on the closing price of the Class A Common Stock on The New York Stock Exchange) held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $7.7 billion. All 10% and greater stockholders, executive officers and directors of the registrant have been deemed,

solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2009 annual meeting of the registrant s stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

		Page
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	49
Item 1B.	Unresolved Staff Comments	76
Item 2.	Properties	76
Item 3.	Legal Proceedings	76
Item 4.	Submission of Matters to a Vote of Security Holders	79
PART II		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	80
Item 6.	Selected Financial Data	83
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	86
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	173
Item 8.	Financial Statements and Supplementary Data	177
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	262
Item 9A.	Controls and Procedures	262
Item 9B.	Other Information	264
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	265
Item 11.	Executive Compensation	269
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	269
Item 13.	Certain Relationships and Related Transactions, and Director Independence	270
Item 14.	Principal Accountant Fees and Services	270
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	271

Table of Contents

Cautionary Note Regarding Forward-looking Statements

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors and risks, including the items identified under Item 1A Risk Factors.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Table of Contents

PART I

In this Annual Report on Form 10-K, unless the context otherwise requires, Genworth, we, us and our refer to Genworth Financial, Inc. and its subsidiaries.

Item 1. Business

Overview

Genworth Financial, Inc. is a leading financial security company dedicated to providing insurance, wealth management, investment and financial solutions to more than 15 million customers, with a presence in more than 25 countries. Genworth was incorporated in Delaware in 2003 in preparation for an initial public offering of Genworth common stock, which was completed on May 28, 2004 (IPO). We are headquartered in Richmond, Virginia and have approximately 6,000 employees.

As a financial security company, we are dedicated to helping meet the homeownership, life security, wealth management and retirement security needs of our customers. We enable homeownership in the U.S. and internationally through the use of our mortgage insurance products that allow people to purchase homes with low down payments while protecting lenders against the risk of default. Through our homeownership education and assistance programs, we also help people keep their homes when they experience financial difficulties. We help individuals accumulate and build wealth for financial security in the U.S. with our wealth management products that include financial planning services and managed accounts. Our life security offerings support and protect people during unexpected events. These life security products and services include our payment protection coverages in Europe, Canada and Mexico; and in the U.S., term and universal life insurance, as well as care coordination and wellness services. We help people achieve financial goals and independence by providing retirement security offerings. In the U.S., retirement security products include various types of annuity and guaranteed retirement income products, as well as individual and group long-term care insurance and Medicare supplement insurance. Across all of our businesses, we differentiate through product innovation and by providing valued services such as education and training, wellness programs, support services and technology linked to our insurance, investment and financial products that address both consumer and distributor needs. In doing so, we strive to be easy to do business with and help our business partners grow more effectively.

Our key products and related services are targeted at markets that are benefiting from significant demographic, legislative and market trends, including the aging population across the countries in which we operate, and the growing reality that responsibility for building financial security now resides primarily with the individual. We distribute our products and services through diversified channels that include financial intermediaries, advisors, independent distributors, affinity groups and dedicated sales specialists.

As of December 31, 2008, we had the following operating segments:

Retirement and Protection. We offer a variety of protection, wealth management, retirement income and institutional products. Our primary protection products include: life, long-term care and Medicare supplement insurance. Additionally, we offer wellness and care coordination services for our long-term care policyholders. Our retirement income and wealth management products include: fixed and variable deferred and immediate individual annuities, group variable annuities offered through retirement plans, and a variety of managed account programs, financial planning services and mutual funds. Most of our variable annuities include a guaranteed minimum death benefit (GMDB). Some of our group and individual variable annuity products include guaranteed minimum benefit features such as guaranteed minimum withdrawal benefits (GMWB) and certain types of guaranteed annuitization benefits. Institutional products include: funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). For the year ended December 31, 2008, our Retirement and Protection segment s net loss was $620 million and net operating income was $301 million.

International. We are a leading provider of mortgage insurance products in Canada, Australia, New Zealand, Mexico and multiple European countries. We primarily offer products in the flow market. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We also offer payment protection coverages in multiple European countries, Canada and Mexico. Our lifestyle protection insurance (formerly referred to as payment protection insurance) products help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death. For the year ended December 31, 2008, our International segment s net income and net operating income were $608 million and $633 million, respectively.

U.S. Mortgage Insurance. In the U.S., we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. We selectively provide mortgage insurance on a structured, or bulk, basis with essentially all of our bulk writings prime-based. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. For the year ended December 31, 2008, our U.S. Mortgage Insurance segment s net loss and net operating loss were $368 million and $330 million, respectively.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of non-core businesses that are managed outside of our operating segments. This includes the results of an originator of reverse mortgage loans acquired in the fourth quarter of 2007 and our group life and health insurance business that we sold on May 31, 2007. For the year ended December 31, 2008, Corporate and Other activities had a loss from continuing operations and a net operating loss of $192 million and $135 million, respectively.

On a consolidated basis, we had $8.9 billion of total stockholders equity and $107.4 billion of total assets as of December 31, 2008. For the year ended December 31, 2008, our revenues were $9.9 billion and we had a net loss of $572 million.

As of February 27, 2009, our principal U.S. life insurance companies had financial strength ratings of A (Strong) from Standard and Poor s (S&P), A1 (Good) from Moody s Investors Service (Moody s), A (Excellent) from A.M. Best and A- (Strong) from FitchRatings (Fitch rated U.S. mortgage insurance companies had financial strength ratings of A+ (Strong) from S&P and Baa2 (Adequate) from Moody s. Our Canadian mortgage insurance company was rated AA (Superior) from Dominion Bond Rating Service (DBRS) and AA (Very Strong) from S&P and our Australian mortgage insurance company was rated AA- (Very Strong) from S&P and A1 (Good) from Moody s.

In December 2008, we entered into a definitive agreement to acquire InterBank, fsb, a thrift headquartered in Maple Grove, Minnesota. The completion of the proposed acquisition is subject to the approval of the Office of Thrift Supervision (OTS), Genworth receiving approval to participate in the U.S. Treasury Department s Capital Purchase Program (CPP) under the Troubled Asset Relief Program (TARP), as well as the satisfaction of other customary closing conditions.

In December 2008, we also announced several actions being taken to advance our strategic goals in response to the current economic downturn. These actions included the elimination of approximately 1,000 jobs globally. We recorded a pre-tax charge of approximately $38 million in the fourth quarter of 2008 for severance, outplacement and other costs associated with the plan for workforce reduction and other restructuring actions. The plan is expected to be completed by the end of the first quarter of 2009.

Table of Contents

Positioning for the Future

Given the recent period of severe global economic turmoil, we have narrowed the focus of our business to concentrate on products and markets where we have the greatest franchise position or potential. This focused approach is designed to help us achieve growth and create stockholder value through pursuit of the following key initiatives:

Refining our strategic market focus. We are concentrating on market segments that we see as most attractive and that best fit with our strengths, profitability targets and risk tolerance. We are refining product and distribution management strategies so that we can capitalize on our leading long-term care insurance franchise and build on key market positions in the life insurance, wealth management, retirement income, lifestyle protection and mortgage insurance markets.

Managing capital and liquidity generation and redeployment. We pursue capital and liquidity management strategies to support the capitalization, targeted ratings and desired cash levels for our insurance companies and holding company. In the current economic and financial market environment, our objective is to generate and maintain additional levels of capital and liquidity to absorb unforeseen events, while still meeting our targeted goals. We are targeting the generation of statutory capital from profit emergence on our in-force business, as well as from ongoing capital management and efficiency strategies such as reinsurance and selective asset sales. Available capital is generally first used to fund new business growth and meet corporate obligations, including debt service coverage. These actions and other steps taken by management in the fourth quarter of 2008 have had a positive impact on the year end statutory Risk-Based Capital (RBC) ratios of our life insurance subsidiaries. In the past, we have evaluated the use of excess capital for stock repurchases, which we have not done since the first quarter of 2008, or dividends. In November 2008, our Board of Directors suspended the payment of dividends on our common stock and repurchases of our common stock under our stock repurchase program indefinitely. Throughout 2008, we also increased our holdings in cash and cash equivalents to strengthen our liquidity position in the current market environment and take advantage of potential opportunities in the future. In addition, we accessed our credit lines which enabled the repurchase of a portion of our debt maturing in 2009.

Actively managing emerging risks. In this rapidly changing environment, we seek to adapt to changes and proactively manage risk as it relates to our products and investment portfolio. We review our pricing and design of products and make adjustments as necessary, as well as make changes to underwriting guidelines. We will also consider whether we exit riskier products. We also actively look for ways to mitigate risk in our investment portfolio and are currently restructuring our exposure limits to help protect our investment portfolio against the potential impact of a prolonged recession. Recently, we have taken steps to reduce exposures in several major asset classes, including banks and other financial sectors, and have shifted towards industries that we believe will be less impacted by a recession, such as utilities. We have a diversified structured securities portfolio with sub-prime and Alt-A securities representing approximately 2% of our total investment portfolio as of December 31, 2008. We have reduced our exposure to non-agency residential mortgage-backed securities. Our commercial mortgage-backed securities consist of higher rated securities and a majority are invested in older, well-seasoned vintages.

Maintaining our commitment to meet the needs of our distributors and policyholders. Consumers need for financial security is more important than ever, and our products and services help them meet those needs. We remain committed to our distribution partners and policyholders and we will continue to invest in key distribution relationships, product lines, service and claims processing capabilities.

Table of Contents

Growth Strategies

Our objectives are to increase revenues and operating income, as well as enhance returns on equity. Our plans to do this are based on the following strategies in each of our segments:

***Retirement and Protection*.** We are a specialist provider of retirement and protection solutions. We offer retirement and protection products across life insurance, long-term care insurance and annuities. We are committed to growing our wealth management business. In addition, we continue to grow our long-term care insurance business, as well as leverage our leadership in long-term care insurance to expand related product lines and services. These include products that combine coverages such as life insurance with long-term care insurance to provide consumers with greater flexibility. We are committed to providing life insurance products that give consumers greater flexibility. We remain committed to the annuity product lines, but will distribute these offerings more selectively through channels, distributors and advisors that are most clearly aligned with our strategic objectives and risk appetite. We also are focused on providing fixed immediate annuities for retirement planning, and we are only pursuing the issuance of our institutional products on an opportunistic basis in the current market environment. Service for policyholders, key advisors and distributors remains a critical priority, as we seek to establish a position being a preferred provider to distributors and producers in our targeted areas of focus, a strategy we term distributor preferred.

International. We are growing our international business within geographies that have attractive market and regulatory conditions for profitable growth, while managing economic, product and underwriting risks. We have established international mortgage insurance platforms in Canada, Australia, Europe and Mexico and we intend to operate them in a disciplined fashion at expected lower mortgage origination levels with an increased focus on risk management activities. We are curtailing our investment in expanding mortgage insurance offerings in certain emerging markets, reflecting the current uncertainty of global market conditions. In our lifestyle protection insurance business, we continue to focus on markets in Europe and plan to grow selectively in new markets.

***U.S. Mortgage Insurance*.** In the United States, economic factors such as increasing unemployment, declining home prices and a lack of credit availability have significantly impacted mortgage origination volumes as well as homebuyers abilities to meet their mortgage obligations. We have responded by shifting to a business model that is expected to deliver higher returns with a lower risk profile, through more stringent underwriting criteria, increased pricing, and restrictions based on product type and geographic location, while maintaining our focus on insuring high-quality single mortgages. We intend to reduce new business production levels in order to manage capital and maintain appropriate capital buffers through this unprecedented housing market cycle, and we continue our efforts as an industry leader in mitigating losses and helping homeowners avoid foreclosure.

Table of Contents

Retirement and Protection

Through our Retirement and Protection segment, we market various forms of wealth management, retirement income, institutional, life insurance and long-term care insurance products and services. The following table sets forth financial information regarding our Retirement and Protection segment as of or for the periods indicated. For additional selected financial information and operating performance measures regarding our Retirement and Protection segment as of or for these periods, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Retirement and Protection.

(Amounts in millions)	As of or for the years ended December 31, 2008	2007	2006
Revenues:			
Wealth management	$ 330	$ 336	$ 199
Retirement income	1,148	1,912	2,161
Institutional	(333)	516	572
Life insurance	1,455	1,959	1,807
Long-term care insurance	3,570	2,836	2,626
Total revenues	$ 6,170	$ 7,559	$ 7,365
Net operating income:			
Wealth management	$ 43	$ 44	$ 20
Retirement income	(246)	212	175
Institutional	80	43	42
Life insurance	264	310	313
Long-term care insurance	160	153	153
Total net operating income	301	762	703
Net investment gains (losses), net of taxes and other adjustments	(909)	(197)	(30)
Expenses related to reorganization, net of taxes	(12)		
Total net income (loss)	$ (620)	$ 565	$ 673
Total segment assets	$ 88,117	$ 94,360	$ 92,820

Wealth management

We offer asset management products and services to near affluent and affluent individual investors. We provide and tailor client advice, asset allocation, open-architecture products and prepackaged support, services and technology to the independent advisor channel. We achieved double-digit sales growth over the last three years in this business and expanded our presence in the managed account service provider market, also known as the turnkey asset management platform market, through the acquisition of AssetMark Investment Services, Inc. (AssetMark). On August 1, 2008, Genworth Financial Asset Management, Inc. (GFAM) merged into AssetMark with AssetMark being the surviving entity. AssetMark subsequently changed its name to Genworth Financial Wealth Management, Inc. on August 1, 2008. The combined resources of GFAM and AssetMark allow us to expand our position as a leading provider in this market. As of December 31, 2008, we were ranked second based on the fourth quarter 2008 *Managed Account Research* published by Cerulli Associates (Cerulli Research) with more than 100,000 accounts and $15.4 billion of assets under management.

Products

Our clients are referred to us through financial advisers, and we work with these financial advisers to develop portfolios consisting of individual securities, mutual funds, exchange traded funds and variable annuities designed to meet each client s particular investment objectives. Generally, our clients for these products and

Table of Contents

services have accumulated significant capital, and our principal asset management strategy is to help protect their assets while taking advantage of opportunities for capital appreciation. Advisory clients are offered the custodial services of our trust company, Genworth Financial Trust Company.

Through our open-architecture platform, we offer to financial advisors one of the most comprehensive fee-based investment management platforms in the industry, access to custodians, client relationship management tools and business development programs, to enable these retail financial advisors to offer institutional caliber services to their clients. We also serve as investment advisor to the AssetMark Funds which are mutual funds offered to clients of financial advisors.

Additionally, through our affiliated retail broker/dealers, we offer annuity and insurance products, including our proprietary products, as well as third-party mutual funds and other investment products.

Distribution

We distribute these products and services through independent investment advisory professionals and financial professionals affiliated with our retail broker/dealers. The underlying mutual funds are distributed via a direct sales force.

Competition

We compete primarily in the managed account service provider market. The market is highly competitive, and is differentiated by service, convenience, product offerings and price. The ten largest companies in the wealth management market comprise approximately 91% of assets under management based on Cerulli Research.

Retirement income

We are focused on helping individuals create dependable income streams for life or for a specified period of time and helping them save and invest to achieve financial goals. We pursue this goal in both individual retail and group markets. We believe our product designs, asset allocation requirements, hedging discipline and use of reinsurance reduce some of the risks to insurers that generally accompany traditional products with GMDBs, GMWBs and certain types of guaranteed annuitization benefits. We are targeting people who are focused on building a personal portable retirement plan or are moving from the accumulation to the distribution phase of their retirement planning.

Fee-based retail products

Variable annuities and variable life insurance

We offer variable annuities that provide customers with a variety of investment options. In addition, some of our variable annuities permit customers to allocate assets to a guaranteed interest account managed within our general account. The contractholder bears the entire risk associated with the performance of investments in the separate account.

Variable annuities generally provide us fees including mortality and expense risk charges and, in some cases, administrative charges. The fees equal a percentage of the contractholder s policy account value and typically range from 0.75% to 3.50% per annum depending on the features and options within a contract.

Our variable annuity contracts generally provide a basic GMDB which provides a minimum account value to be paid upon the annuitant s death. Contractholders may also have the option to purchase riders that provide enhanced death benefits. Assuming every annuitant died on December 31, 2008, as of that date, contracts with death benefit features not covered by reinsurance had an account value of $5,812 million and a related death benefit exposure of $1,706 million net amount at risk.

Table of Contents

Our Income Distribution Series of variable annuity products provide the contractholder with a guaranteed minimum income stream that they cannot outlive, along with an opportunity to participate in market appreciation.

As a solution to the trend of employers moving away from traditional defined benefit retirement plans to defined contribution plans such as 401(k) plans, we have introduced to the qualified plan market a group variable annuity with guaranteed retirement income and features. This product is designed to offer participants the ability to secure guaranteed retirement income with growth potential during the accumulation phase while maintaining liquidity; and during the distribution phase, to provide guaranteed annual income with upside growth potential with varying degrees of liquidity with respect to underlying assets.

We discontinued selling variable life insurance policies on May 1, 2008; however, we continue to service existing policies.

Institutional Asset Management Services

Until December 31, 2006, we managed a pool of municipal GICs issued by affiliates of General Electric Company (GE). As of January 1, 2007, we provided transition and consulting services to the GE affiliates for their municipal GICs through December 15, 2008.

Distribution

We distribute our variable annuity products through banks, national brokerage firms and independent broker/dealers. We also distribute our group variable annuity product through broker/dealers and through defined contribution plan record keepers. We continue to work with additional record keepers to adopt this product on their platforms.

Competition

There are numerous competitors in this market within all major distribution channels that we sell through. Our Income Distribution Series of products enable consumers to opt for lifetime guaranteed income beginning immediately or on a deferred basis. We have been an early mover in this market space and believe we are well positioned.

Spread-based retail products

Fixed annuities

We offer fixed single premium deferred annuities which require a single premium payment at time of issue and provide an accumulation period and an annuity payout period. During the accumulation period, we credit the account value of the annuity with interest earned at a crediting rate guaranteed for no less than one year at issue, but which may be guaranteed for up to six years, and thereafter is subject to annual crediting rate resets at our discretion, based upon competitive factors and prevailing market rates, subject to statutory minimums. Our fixed annuity contracts are supported by the claims paying ability of the issuing insurance company, and the accrual of interest during the accumulation period is generally on a tax-deferred basis to the owner. The majority of our fixed annuity contractholders retain their contracts for five to ten years.

Single premium immediate annuities

In exchange for a single premium, immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant s lifetime, or the longer of the defined number of years or the annuitant s lifetime.

Structured settlements

Structured settlement annuity contracts provide an alternative to a lump sum settlement, generally in a personal injury lawsuit or workers compensation claim, and typically are purchased by property and casualty insurance companies for the benefit of an injured claimant. The structured settlements provide scheduled payments over a fixed period or, in the case of a life-contingent structured settlement, for the life of the claimant with a guaranteed minimum period of payments. In the third quarter of 2006, we discontinued sales of our structured settlement annuities while continuing to service our retained and reinsured blocks of business.

Distribution

We distribute our spread-based retail products through banks, national brokerage firms and independent broker/dealers.

Competition

We compete with a large number of life insurance companies in the single premium immediate annuity marketplace. We continue to see long-term growth prospects for single premium immediate annuities based both on demographics and government policy trends that favor a greater role for private solutions in meeting long-term retirement needs. We believe long-term experience with mortality and longevity, combined with disciplined risk management, provide competitive advantages in how we segment and price our products.

We have bank distribution relationships that we believe allow us to maintain the distribution shelf space needed to remain competitive in the fixed annuity marketplace. Sales of fixed annuities are strongly linked to current interest rates, which affect the relative competitiveness of alternative products, such as certificates of deposit and money market funds. We have experienced fluctuations in sales levels for this product and expect these fluctuations to continue in the future.

Institutional

Our institutional products include funding agreements, FABNs and GICs, which are deposit-type products that pay a guaranteed return to the contractholder on specified dates. These products are purchased by qualified and non-qualified plans that desire the features and guarantees inherent in these instruments. We sell these specialized products to institutional customers for use in retirement plans, money market funds and other investment purposes. We have two FABN programs: a registered program offered both to institutional and retail investors and a global medium term notes (GMTN) program primarily offered to non-U.S. investors.

We may experience significant fluctuations in new deposits as we may issue new business when market conditions are favorable and may issue no new business when market conditions are not favorable. We do not anticipate writing new institutional business in the current market environment.

Products

Funding agreements are purchased by institutional accredited investors for various kinds of non-qualified accounts. Purchasers of funding agreements include money market funds, bank common trust funds and other corporate and trust accounts and private investors, including Genworth Global Funding Trust and Genworth Life Institutional Funding Trust as part of our FABN programs. GICs are purchased by Employee Retirement Income Security Act of 1974 (ERISA) qualified plans, including pension and 401(k) plans.

Our funding agreements and FABNs generally credit interest on deposits at a floating rate tied to an external market index and are typically issued for terms of one to seven years. Substantially all of our GICs allow for the

payment of benefits at contract value to ERISA plan participants prior to contract maturity in the event of death, disability, retirement or change in investment election. We carefully underwrite these risks before issuing a GIC to a plan and historically have been able to effectively manage our exposure to these benefit payments. Our GICs have a fixed maturity generally ranging from two to six years.

We typically manage our institutional products on a floating rate basis and invest the proceeds in floating rate assets. When we issue products that credit interest on a fixed rate basis, we may enter into counterparty swap arrangements where we exchange our fixed rate interest payment for a floating rate that is tied to an index in order to correlate the floating rate assets.

Distribution

Our FABNs are distributed through investment banks and broker/dealers. We place our funding agreements directly and through specialized brokers. GICs are sold both directly and through investment managers.

Competition

These institutional markets are highly correlated to the global credit environment and have recently seen a sharp decline in issuance. When the markets are open and active, we compete with other insurance companies or issuers of other fixed income instruments.

Life insurance

Our life insurance business markets and sells products that provide a personal financial safety net for individuals and their families. These products provide protection against financial hardship after the death of an insured and may also offer a savings element that can be used to help accumulate funds to meet future financial needs. According to the American Council of Life Insurers, face value of new life insurance coverage sold in the U.S. totaled $3.1 trillion in 2007, and total life insurance coverage in the U.S. was $19.5 trillion as of December 31, 2007.

Products

Our principal life insurance products are term life and universal life. We also have a runoff block of whole life insurance. Term life insurance products provide coverage with guaranteed level premiums for a specified period of time and generally have little or no buildup of cash value. We have been a leading provider of term life insurance for more than two decades, and are a leader in marketing term life insurance through brokerage general agencies (BGAs) in the U.S.

Universal life insurance products are designed to provide permanent protection for the life of the insured and may include a buildup of cash value that can be used to meet particular financial needs during the policyholder s lifetime.

Underwriting and pricing

Underwriting and pricing are significant drivers of profitability in our life insurance business, and we have established rigorous underwriting and pricing practices. We have generally reinsured risks in excess of $5 million per life. From time-to-time, we may reinsure any risk depending on the pricing terms of available reinsurance. We set pricing assumptions for expected claims, lapses, investment returns, expenses and customer demographics based on our experience and other factors.

We price our insurance policies based primarily upon our historical experience. We target individuals in preferred risk categories, which include healthier individuals who generally have family histories that do not

present increased mortality risk. We also have significant expertise in evaluating people with health problems and offer appropriately priced coverage based on stringent underwriting criteria.

Distribution

We offer life insurance products through an extensive network of independent BGAs throughout the U.S. and through affluent market producer groups, financial intermediaries and insurance marketing organizations. We believe there are opportunities to expand our sales through each of these and other distribution channels.

Competition

Competition in our life insurance business comes from many sources, including many traditional insurance companies as well as non-traditional providers, such as banks and private equity markets. The life insurance market is highly fragmented. Competitors have multiple access points to the market through BGAs, financial institutions, career sales agents, multi-line exclusive agents, e-retail and other life insurance distributors. We operate primarily in the BGA channel and have built out our capabilities in other channels. We believe our competitive advantage in the term life insurance market comes from our long history serving this market, our service excellence, underwriting expertise and pricing on our smaller face amounts as our average policy size is less than $400,000. We have built out our universal life insurance product suite to take advantage of increased distributor interest and consumer demand.

Long-term care insurance

We established ourselves as a pioneer in long-term care insurance over 30 years ago. We are a leading provider in the industry. Our experience helps us plan for disciplined growth built on a foundation of strong risk management, product innovation and a diversified distribution strategy.

In July 2007, AARP selected us as its provider to offer new long-term care insurance products to its approximately 40 million members, and we entered into a five-year exclusive endorsement agreement with AARP in 2007. This relationship will provide access to two new distribution channels, telephone and internet sales, with direct access to customers.

During 2007 and 2008, we filed for state regulatory approvals for a premium rate increase of between 8% and 12% on most of our block of older issued long-term care insurance policies and are currently in the process of implementing this rate increase. The rate increase has now been approved in 43 states. This block represents approximately $670 million, or 35%, of our total annual long-term care insurance premium in-force.

Products

Our individual and group long-term care insurance products provide defined levels of protection against the high and escalating costs of long-term care provided in the insured s home or in assisted living or nursing facilities. Insureds become eligible for certain covered benefits if they become incapable of performing certain activities of daily living or become cognitively impaired. In contrast to health insurance, long-term care insurance provides coverage for skilled and custodial care provided outside of a hospital or health-related facility. The typical claim has a duration of approximately one to four years.

We also offer linked-benefits products for customers who traditionally self-funded long-term care expenses. One linked-benefits product combines universal life insurance with long-term care insurance coverage in a single policy. The policy provides coverage for cash value, death benefits and long-term care benefits. We also offer a linked-benefits product that combines a single premium deferred annuity with long-term care insurance coverage.

We expanded our Medicare supplement insurance product in a majority of states and have seen growth in these new states. To further expand our senior supplementary product capabilities, we acquired Continental Life

Insurance Company of Brentwood, Tennessee (Continental Life) in 2006. This acquisition more than doubled our existing annualized Medicare supplement premiums in-force and provides a potential platform for expanding in other senior supplementary products. Since 2007, American Continental Insurance Company, a subsidiary of Continental Life, has expanded its offering of competitively priced Medicare supplement insurance product in 27 states where it was previously not licensed.

Underwriting and pricing

We employ extensive medical underwriting policies to assess and quantify risks before we issue our long-term care insurance policies, similar to, but separate from, those we use in underwriting life insurance products.

We have accumulated extensive pricing and claims experience, and believe we have the largest actuarial database in the industry. The overall profitability of our long-term care insurance business depends on the accuracy of our pricing assumptions for claims experience, morbidity and mortality experience, lapse rates and investment yields. Our actuarial database provides us with substantial data that has helped us develop sophisticated pricing methodologies for our newer policies. We tailor pricing based on segmented risk categories, including marital status, medical history and other factors. Profitability on older policies issued without the full benefit of this experience and pricing methodology has been lower than initially assumed in pricing of those blocks. We continually monitor trends and developments and update assumptions that may affect the risk, pricing and profitability of our long-term care insurance products and adjust our new product pricing and other terms, as appropriate. We also work with a Medical Advisory Board, comprised of independent experts from the medical technology and public policy fields, that provides insights on emerging morbidity and medical trends, enabling us to be more proactive in our risk segmentation, pricing and product development strategies.

Distribution

We have a broad and diverse distribution network for our products. We distribute our products through diversified sales channels consisting of appointed independent producers, financial intermediaries and dedicated sales specialists. We have made significant investments in our servicing and support for both independent and dedicated sales specialists and we believe our product features, distribution support and services are leading the industry.

Competition

Competition in the long-term care insurance industry is primarily limited to the top ten insurance companies. Our products compete by providing consumers with an array of long-term care planning solutions available from a single company. There is a product and price point available within the reach of a wide spectrum of the population who are concerned about mitigating the costs of a future long-term care need or leveraging their self-insurance dollars. We believe our significant historical experience and risk disciplines provide us with a competitive advantage in the form of sound product pricing and company stability.

International

In our International segment, we currently offer mortgage and lifestyle protection insurance and have a presence in over 25 countries.

Through our international mortgage insurance business, we are a leading provider of mortgage insurance in Canada, Australia, New Zealand, Mexico and multiple European countries. We expanded our international operations throughout the 1990s and, today, we believe we are the largest overall provider of mortgage insurance outside of the U.S.

Private mortgage insurance enables borrowers to buy homes with low-down-payment mortgages, which are usually defined as loans with a down payment of less than 20% of the home s value. Low-down-payment

Table of Contents

mortgages are also referred to as high loan-to-value mortgages. Mortgage insurance protects lenders against loss in the event of a borrower s default. It also generally aids financial institutions in managing their capital by reducing the capital required for low-down-payment mortgages. If a borrower defaults on mortgage payments, private mortgage insurance reduces and may eliminate losses to the insured institution. Private mortgage insurance may also facilitate the sale of mortgage loans in the secondary mortgage market.

Our lifestyle protection insurance helps consumers meet payment obligations on outstanding financial commitments, such as mortgages, personal loans or credit cards, in the event of a misfortune such as illness, accident, involuntary unemployment, temporary incapacity, permanent disability or death.

The following table sets forth financial information regarding our International segment as of or for the periods indicated. Additional selected financial information and operating performance metrics regarding our International segment as of or for these periods are included under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations International.

	As of or for the years ended December 31,		
(Amounts in millions)	**2008**	**2007**	**2006**
Revenues:			
International mortgage insurance	$ 1,350	$ 1,161	$ 860
Lifestyle protection insurance	1,557	1,528	1,284
Total revenues	$ 2,907	$ 2,689	$ 2,144
Net operating income:			
International mortgage insurance	$ 481	$ 455	$ 355
Lifestyle protection insurance	152	130	113
Total net operating income	633	585	468
Net investment gains (losses), net of taxes and other adjustments	(16)	(5)	1
Expenses related to reorganization, net of taxes	(9)		
Total net income	$ 608	$ 580	$ 469
Total segment assets	$ 10,498	$ 11,892	$ 8,518

International mortgage insurance

We have significant mortgage insurance operations in Canada and Australia, two of the largest markets for mortgage insurance products outside of the U.S., as well as smaller operations in New Zealand and the developing markets in Europe and Mexico.

The mortgage loan markets in Canada and Australia are well developed, and mortgage insurance plays an important role in each of these markets. However, these markets vary significantly and are influenced by different cultural, economic and regulatory conditions.

We believe the following factors have contributed to the growth of mortgage insurance demand in these countries:

- a desire by lenders to expand their business by offering low-down-payment mortgage loans;

- the recognition of the higher default risk inherent in low-down-payment lending and the need for specialized underwriting expertise to conduct this business prudently;

government housing policies that support increased homeownership;

government policies that support the use of securitization and secondary market mortgage sales, in which third-party credit enhancement is often used as a source of funding and liquidity for mortgage lending; and

bank regulatory capital policies that provide incentives to lenders to transfer some or all of the credit risk on low-down-payment mortgages to third parties, such as mortgage insurers.

Based upon our experience in the mature markets, we believe a favorable regulatory framework is important to the development of high loan-to-value lending and the use of products such as mortgage insurance to protect against default risk or to obtain capital relief. As a result, we have advocated governmental and policymaking agencies throughout our markets to adopt legislative and regulatory policies supporting increased homeownership and the use of private mortgage insurance. We have significant expertise in mature markets, and we leverage this experience in developing selected markets to encourage regulatory authorities to implement incentives to use private mortgage insurance as an important element of their housing finance systems.

We believe the revisions to a set of regulatory rules and procedures governing global bank capital standards that were introduced by the Basel Committee of the Bank for International Settlements, known as Basel II, also may encourage further growth of international mortgage insurance. Basel II has been designed to reward banks that have developed effective risk management systems by allowing them to hold less capital than banks with less effective systems. While Basel II was finalized and issued in June 2004, its adoption by individual countries internationally and in the U.S. is ongoing. Therefore, we cannot predict the mortgage insurance benefits that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance.

Mortgage insurance in our International segment is predominantly single premium and provides 100% coverage. Under single premium policies, the premium is usually included as part of the aggregate loan amount and paid to us as the mortgage insurer. We record the proceeds to unearned premium reserves, invest those proceeds and recognize the premiums over time in accordance with the expected pattern of risk emergence.

Canada

We entered the Canadian mortgage insurance market in 1995 with our acquisition of certain assets and employees from the Mortgage Insurance Corporation of Canada, and we now operate in every province and territory. We are currently the leading private mortgage insurer in the Canadian market. The ten largest mortgage originators in Canada provide the majority of the financing for residential mortgage financing in that country. Our five largest lender relationships in Canada provided the majority of our flow new insurance written in 2008.

Products

We offer primary flow insurance and portfolio credit enhancement insurance. Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by federally incorporated banks, trust companies and insurers, where the loan-to-value ratio exceeds 80%.

We also provide portfolio credit enhancement insurance to lenders that have originated loans with loan-to-value ratios of less than or equal to 80%. These policies provide lenders with immediate capital relief from applicable bank regulatory capital requirements and facilitate the securitization of mortgages in the Canadian market. In both primary flow insurance and portfolio policies, our mortgage insurance in Canada provides insurance coverage for the entire unpaid loan balance, including interest, selling costs and expenses, following the sale of the underlying property.

Government guarantee

We have an agreement with the Canadian government under which it guarantees the benefits payable under a mortgage insurance policy, less 10% of the original principal amount of an insured loan, in the event that we

16

fail to make claim payments with respect to that loan because of insolvency. We pay the Canadian government a risk premium for this guarantee and make other payments to a reserve fund in respect of the government s obligation. Because banks are not required to maintain regulatory capital on an asset backed by a sovereign guarantee, our 90% sovereign guarantee permits lenders purchasing our mortgage insurance to reduce their regulatory capital charges for credit risks on mortgages by 90%.

The Canadian Department of Finance has informed us that they intend to review the guarantee agreement we have with the Canadian government. While the Department of Finance originally targeted completion of the review by the end of 2008, we continue to be engaged in ongoing discussions with Department of Finance officials on this matter and no new target completion date has been announced. Although we believe the Canadian government will preserve the guarantee in order to maintain competition in the Canadian mortgage industry, we cannot be sure what, if any, changes will be made to the terms of the guarantee.

Competition

Our primary mortgage insurance competitor in Canada is the Canada Mortgage and Housing Corporation (CMHC) which is owned by the Canadian government, although other competitors have entered the Canadian market. CMHC s mortgage insurance provides lenders with 100% capital relief from bank regulatory requirements. We compete with CMHC primarily based upon our reputation for high quality customer service, quick decision-making on insurance applications, strong underwriting expertise and flexibility in product development. In 2008, as a result of the turmoil in the financial markets, there has been increased preference by lenders for CMHC insurance, which carries a lower capital charge and a 100% guarantee, as compared to loans covered by our policy which benefits from a 90% government guarantee.

Australia

We entered the Australian mortgage insurance market in 1997 with our acquisition of the operating assets of the Housing Loans Insurance Corporation from the Australian government. As part of the expansion of our Australian operations, we also entered the New Zealand mortgage insurance market in 1999 and acquired Vero Lenders Mortgage Insurance Limited in 2006. In 2008, we were the leading provider of mortgage insurance in Australia based upon flow new insurance written. The ten largest mortgage originators in Australia provide the majority of the financing for residential mortgage financing in that country. Our two largest lender relationships in Australia provided the majority of our flow new insurance written in 2008.

Products

In Australia and New Zealand, we offer primary flow mortgage insurance, also known as lenders mortgage insurance (LMI), and portfolio credit enhancement policies. Our principal product is LMI which is similar to single premium primary flow insurance we offer in Canada with 100% coverage. Lenders usually collect the single premium from borrowers at the time the loan proceeds are advanced and remit the amount to us as the mortgage insurer.

We provide LMI on a flow basis to customers including banks, building societies, credit unions and non-bank mortgage originators, called mortgage managers. Banks, building societies and credit unions generally acquire LMI only for residential mortgage loans with loan-to-value ratios above 80%. Beginning in 2006, the Australian Prudential Regulation Authority (APRA) reduced capital requirements for high loan-to-value residential mortgages if they have been insured by a mortgage insurance company regulated by APRA. APRA s license conditions require Australian mortgage insurance companies, including ours, to be monoline insurers, which are insurance companies that offer just one type of insurance product.

We also provide portfolio credit enhancement policies to APRA-regulated lenders that have originated Australian loans for securitization. Portfolio mortgage insurance serves as an important source of credit

enhancement for the Australian securitization market, and our portfolio credit enhancement coverage generally is purchased for low loan-to-value, seasoned loans written by APRA-regulated institutions. To date, a market for these portfolio credit enhancement policies has not developed in New Zealand to the same extent as in Australia.

Competition

The Australian and New Zealand flow mortgage insurance markets are primarily served by one other private LMI company, as well as various lender-affiliated captive mortgage insurance companies. We compete primarily based upon our reputation for high quality customer service, quick decision making on insurance applications, strong underwriting expertise and flexibility in terms of product development. Our products also compete in Australia and New Zealand with alternative products and financial structures that are designed to transfer credit default risk on mortgage loans.

Europe and other international

We began our European operations in the U.K., which is Europe s largest market for mortgage loan originations. In recent years, we expanded into eight additional countries. In 2008, we were a leading private mortgage insurance provider in Europe, based upon flow new insurance written. We also have a presence in the developing private mortgage insurance market in Mexico.

Products

Our mortgage insurance products in Europe consist principally of primary flow insurance structured with single premium payments. Our primary flow insurance generally provides first-loss coverage in the event of default on a portion (typically 10% to 20%) of the balance of an individual mortgage loan. We also offer portfolio credit enhancement to lenders that have originated loans for securitization.

Competition

Our competition in Europe includes both public and private entities, including traditional insurance companies, as well as providers of alternative credit enhancement products and public mortgage guarantee facilities. Competition from alternative credit enhancement products include personal guarantees on high loan-to-value loans, second mortgages and bank guarantees, captive insurance companies organized by lenders, and alternative forms of risk transfer including capital markets solutions. We believe that our global expertise and coverage flexibility differentiate us from competitors and alternative products.

International mortgage insurance underwriting and pricing

Loan applications for all loans we insure are reviewed to evaluate each individual borrower s credit strength and history, the characteristics of the loan and the value of the underlying property. Loan applications for flow mortgage insurance are reviewed by our employees or by employees of mortgage lender customers which underwrite loan applications for mortgage insurance under a delegated underwriting program. This delegated underwriting program permits approved lenders to commit us to insure loans using underwriting guidelines we have previously approved.

When underwriting bulk insurance transactions, we evaluate characteristics of the loans in the portfolio and examine loan files on a sample basis. Each bulk transaction is assigned an overall claim rate based on a weighted average of the expected claim rates for each individual loan that comprises the transaction.

During 2008, we took additional actions to reduce our new business risk profile, which include: tightening underwriting guidelines, including product restrictions, reducing new business in geographic areas we believe are

more economically sensitive, and terminating commercial relationships as a result of weaker business performance. We have also increased prices in certain markets based on periodic reviews of product performance. We believe these underwriting and pricing actions will improve our underwriting performance on new books of business, and may reduce levels of new insurance written.

International mortgage insurance distribution

We maintain a dedicated sales force that markets our mortgage insurance products internationally to lenders. As in the U.S. market, our sales force markets to financial institutions and mortgage originators, who in turn offer mortgage insurance products to borrowers.

Lifestyle protection insurance

We currently provide lifestyle protection insurance to consumers in more than 20 countries offered principally by financial services companies at the point of sale of consumer products. This business also includes a small Mexican property and casualty insurance business, which we entered into an agreement to sell in January 2009 with closing expected in the latter half of 2009. We expect to selectively expand our lifestyle protection insurance business in new markets and by further penetration of existing distribution relationships and new products. In Europe, we are a leading provider of lifestyle protection insurance.

Products and services

Our lifestyle protection products include lifestyle protection from involuntary unemployment, disability, accident and death. The benefits on these policies pay the periodic payments on the consumer loan for a limited period of time, typically twelve months, though they can be up to 84 months. In some cases, for certain coverages, we may make lump sum payments. Our policies include an exclusion period that is usually 60 days and a waiting period (time between claim submission and claim payment) of typically 30 days. Our policies either require an upfront single premium or monthly premiums.

We also provide third-party administrative services and administer non-risk premium with some relationships in Europe. Additionally, we have entered into structured transactions, covering Canadian and European risk.

Underwriting and pricing

Our lifestyle protection insurance is currently underwritten and priced on a program basis, by type of product and by distributor, rather than an individual policyholder basis. In setting prices, we take into account the underlying obligation, the particular product features and the average customer profile of the distributor. For our monthly premium policies, most contracts allow for monthly price adjustments after consultation with our distribution partners which help us to reduce our business risk profile when there are adverse changes in the market. Additionally, certain of our distribution contracts provide for profit sharing with our distribution partners, which provide our business and our distribution partners with risk protection and profit sharing over the life of the contract. We believe our experience in underwriting allows us to provide competitive pricing to distributors and generate targeted returns and profits for our business.

Distribution

We distribute our lifestyle protection insurance products primarily through financial institutions, including major European banks that offer our insurance products in connection with underlying loans or other financial products they sell to their customers. Under these arrangements, the distributors typically take responsibility for branding and marketing the products, while we take responsibility for pricing, underwriting and claims payment.

We continue to implement innovative methods for distributing our lifestyle protection insurance products, including web-based tools that provide our distributors with a cost-effective means of applying our products to a

broad range of underlying financial obligations. We believe these innovative methods also make it easier to establish arrangements with new distributors, as well as help us further diversify our distribution and geographical channels in an increasingly changing environment.

Competition

The lifestyle protection insurance market has several large, highly rated international participants. We compete through our commitment to high service levels, depth of expertise in providing tailored product and service solutions and our ability to service global clients at a local level and in multiple countries, if appropriate.

U.S. Mortgage Insurance

Through our U.S. Mortgage Insurance segment, we provide private mortgage insurance. Private mortgage insurance enables borrowers to buy homes with low-down-payment mortgages, which are usually defined as loans with a down payment of less than 20% of the home s value. Low-down-payment mortgages are sometimes also referred to as high loan-to-value mortgages. Mortgage insurance protects lenders against loss in the event of a borrower s default. It also generally aids financial institutions in managing their capital efficiently by reducing the capital required for low-down-payment mortgages. If a borrower defaults on mortgage payments, private mortgage insurance reduces and may eliminate losses to the insured institution. Private mortgage insurance may also facilitate the sale of mortgage loans in the secondary mortgage market.

We have been providing mortgage insurance products and services in the U.S. since 1981 and operate in all 50 states and the District of Columbia. According to *Inside Mortgage Finance*, in 2008, we were the second largest provider of mortgage insurance in the U.S., based on flow new insurance written. Our principal mortgage insurance customers are originators of residential mortgage loans who typically determine which mortgage insurer or insurers they will use for the placement of mortgage insurance written on loans they originate.

The U.S. private mortgage insurance industry is defined in part by the requirements and practices of Fannie Mae, Freddie Mac and other large mortgage investors. Fannie Mae and Freddie Mac purchase residential mortgages from mortgage lenders and investors, as part of their governmental mandate to provide liquidity in the secondary mortgage market. Fannie Mae and Freddie Mac purchased approximately 60% for the year ended December 31, 2008 and approximately 44% and 28% for the years ended December 31, 2007 and 2006, respectively, of all the mortgage loans originated in the U.S., according to statistics published by *Inside Mortgage Finance*. Fannie Mae and Freddie Mac are government-sponsored enterprises, and we refer to them as the GSEs. Fannie Mae s and Freddie Mac s mortgage insurance requirements include specified insurance coverage levels and minimum financial strength ratings. Fannie Mae and Freddie Mac currently require maintenance of a rating by at least two out of three listed rating agencies (S&P, Fitch and Moody s) of at least AA- / Aa3 (as applicable), with no rating below those levels by any of the three listed rating agencies; otherwise, additional limitations or requirements may be imposed for eligibility to insure loans purchased by the GSEs. In February 2008, Fannie Mae and Freddie Mac temporarily suspended automatic imposition of the additional requirements otherwise applicable upon a ratings downgrade below the above-described requirements, subject to certain specified conditions.

The GSEs may purchase mortgages with unpaid principal amounts up to a specified maximum, or the conforming loan limit, which is currently $417,000 and subject to annual adjustment. The American Recovery and Reinvestment Act of 2009 permits the GSEs to purchase loans in excess of the $417,000 limit in certain high-cost areas of the country. For 2009, the limit in those areas is 125% of median home price for the area, but no more than $729,750. Each GSE s Congressional charter generally prohibits it from purchasing a mortgage where the loan-to-value ratio exceeds 80% of home value unless the portion of the unpaid principal balance of the mortgage, which is in excess of 80% of the value of the property securing the mortgage, is protected against default by lender recourse, participation or by a qualified insurer. As a result, high loan-to-value mortgages

Table of Contents

purchased by Fannie Mae or Freddie Mac generally are insured with private mortgage insurance. Fannie Mae and Freddie Mac purchased the majority of the flow loans we insured as of December 31, 2008.

The following table sets forth selected financial information regarding our U.S. Mortgage Insurance segment as of or for the periods indicated. Additional selected financial information and operating performance measures regarding our U.S. Mortgage Insurance segment as of or for these periods are included under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations U.S. Mortgage Insurance.

(Amounts in millions)	As of or for the years ended December 31, 2008	2007	2006
Total revenues	$ 851	$ 805	$ 658
Net operating income (loss)	$ (330)	$ 167	$ 259
Net investment gains (losses), net of taxes and other adjustments	(38)	4	3
Total net income (loss)	$ (368)	$ 171	$ 262
Total segment assets	$ 3,978	$ 3,286	$ 3,237

Products and services

The majority of our U.S. mortgage insurance policies provide default loss protection on a portion (typically 10% to 40%) of the balance of an individual mortgage loan. Our primary mortgage insurance policies are predominantly flow insurance policies, which cover individual loans at the time the loan is originated. We also enter into bulk insurance transactions with lenders and investors in selected instances, under which we insure a portfolio of loans for a negotiated price.

In addition to flow and bulk primary mortgage insurance, we have written a limited amount of mortgage insurance on a pool basis. Under pool insurance, the mortgage insurer provides coverage on a group of specified loans, typically for 100% of all losses on every loan in the portfolio, subject to an agreed aggregate loss limit.

Flow insurance

Flow insurance is primary mortgage insurance placed on an individual loan when the loan is originated. Our primary mortgage insurance covers default risk on first mortgage loans generally secured by one- to four-unit residential properties and can be used to protect mortgage lenders and investors from default on any type of residential mortgage loan instrument that we have approved. Our insurance covers a specified coverage percentage of a claim amount consisting of unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure. As the insurer, we are generally required to pay the coverage percentage of a claim amount specified in the primary policy, but we also have the option to pay the lender an amount equal to the unpaid loan principal, delinquent interest and certain expenses incurred with the default and foreclosure, and acquire title to the property. In addition, the claim amount may be reduced or eliminated if the loss on the defaulted loan is reduced as a result of the lender s disposition of the property. The lender selects the coverage percentage at the time the loan is originated, often to comply with investor requirements to reduce the loss exposure on loans purchased by the investor.

In connection with flow insurance, we perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and speeds the approval process. Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability.

Table of Contents

In the U.S., we have entered into a number of reinsurance agreements in which we share portions of our flow mortgage insurance risk written on loans originated or purchased by lenders with captive reinsurance companies, or captive reinsurers, affiliated with these lenders. In return, we cede an agreed portion of our gross premiums on insurance written to the captive reinsurers. Substantially all of our captive mortgage reinsurance arrangements are structured on an excess of loss basis. In February 2008, Fannie Mae and Freddie Mac announced a change to its eligibility rules limiting captive reinsurance arrangements to those where premiums ceded do not exceed 25%. As of December 31, 2008, our total mortgage insurance risk in-force reinsured to all captive reinsurers was $3.2 billion, and the total capital held in trust for our benefit by all captive reinsurers was $1.0 billion. These captive reinsurers are not rated, and their claims-paying obligations to us are secured by an amount of capital held in trust as determined by the underlying treaties. For the years ended December 31, 2008 and 2007, we recorded a reinsurance credit of $505 million and $2 million, respectively, under these captive reinsurance arrangements. We expect to reach the attachment point for reinsurance credit in 2009 for additional captive reinsurance arrangements as incurred losses continue to develop on our 2005 through 2007 books of business. New insurance written through the bulk channel generally is not subject to these arrangements.

The following table sets forth selected financial information regarding our captive reinsurance arrangements as of or for the periods indicated:

	As of or for the years ended December 31,		
	2008	**2007**	**2006**
Flow risk in-force subject to captive reinsurance arrangements, as a percentage of flow risk in-force	55%	63%	65%
Primary risk in-force subject to captive reinsurance arrangements, as a percentage of total primary risk in-force	53%	60%	63%
Gross written premiums ceded pursuant to captive reinsurance arrangements, as a percentage of total gross written premiums	20%	22%	23%
Primary new risk written subject to captive reinsurance arrangements, as a percentage of total primary new risk written	33%	56%	58%

Bulk insurance

Under our primary bulk insurance, we insure a portfolio of loans in a single, bulk transaction. Generally, in our bulk insurance, the individual loans in the portfolio are insured to specified levels of coverage and there may be deductible provisions and aggregate loss limits applicable to all of the insured loans. In addition, loans that we insure in bulk transactions with loan-to-value ratios above 80% typically have flow mortgage insurance, written either by us or another private mortgage insurer, which helps mitigate our exposure under these transactions. We base the premium on our bulk insurance upon our evaluation of the overall risk of the insured loans included in a transaction and we negotiate the premium directly with the securitizer or other owner of the loans. Premiums for bulk transactions generally are paid monthly by lenders, investors or a securitization vehicle in connection with a securitization transaction or the sale of a loan portfolio. Prior to 2006, the majority of our bulk insurance business was related to loans financed by lenders who participated in the mortgage programs sponsored by the Federal Home Loan Banks (FHLBs). In 2006, we increased our participation in the GSE low documentation, or Alt-A, programs and began to provide bulk insurance on lender portfolios. During 2007, we continued to provide bulk insurance on GSE Alt-A programs. Additionally, we provided bulk insurance on lender portfolios, a substantial portion of which was comprised of low loan-to-value and high Fair Isaac Company (FICO) score payment option adjustable rate (POA) loans. For additional information related to our bulk insurance, see Item 3 Legal Proceedings.

Table of Contents

Pool insurance

Pool insurance generally covers the loss on a defaulted mortgage loan that either exceeds the claim payment under the primary coverage (if primary insurance is required on that loan) or the total loss (if that loan does not require primary insurance), in each case up to a stated aggregate loss limit on the pool. During 2005, we wrote pool insurance selectively for state housing finance agencies. In 2006, we wrote a limited amount of pool insurance on second lien mortgages, typically held in lender portfolios. These policies cover prime credit-quality second lien mortgages and typically include aggregate stop loss provisions. However, we no longer write business in the second lien mortgage market.

Underwriting and pricing

Loan applications for all loans we insure are reviewed to evaluate each individual borrower s credit strength and history, the characteristics of the loan and the value of the underlying property.

Fair Isaac Company developed the FICO credit scoring model to calculate a score based upon a borrower s credit history. We use the FICO credit score as one indicator of a borrower s credit quality. The higher the credit score, the lower the likelihood that a borrower will default on a loan. FICO credit scores range up to 850, with a score of 620 or more generally viewed as a prime loan and a score below 620 generally viewed as a sub-prime loan. A minus loans generally are loans where the borrowers have FICO credit scores between 575 and 660, and where the borrower has a blemished credit history. As of December 31, 2008, on a risk in-force basis, approximately 92% of our primary insurance loans had FICO credit scores of at least 620, approximately 6% had FICO credit scores between 575 and 619, and approximately 2% had FICO credit scores of 574 or less. Loan applications for flow mortgage insurance are reviewed by our employees directly as part of our traditional underwriting process or by our contract underwriters as we process mortgage loan applications requiring mortgage insurance. The majority of our mortgage lender customers underwrite loan applications for mortgage insurance under a delegated underwriting program, in which we permit approved lenders to commit us to insure loans using underwriting guidelines we have previously approved.

When underwriting bulk insurance transactions, we evaluate credit scores and loan characteristics of the loans in the portfolio and examine loan files on a sample basis. Each bulk transaction is assigned an overall claim rate based on a weighted average of the expected claim rates for each individual loan that comprises the transaction.

We also provide mortgage insurance for Alt-A loans, which are originated under programs in which there is a reduced level of verification or disclosure of the borrower s income or assets and a higher historical and expected default rate than standard documentation loans; Interest Only loans which allow the borrower flexibility to pay interest only, or to pay interest and as much principal as desired, during an initial period of time; and POA mortgages, which typically provide four payment options that a borrower may select for the first five years of a loan.

Beginning in the second half of 2007 and through 2008, we have taken specific underwriting and risk management actions to reduce our new business risk profile, including changing prices, product levels and underwriting guidelines, to improve the performance of new business written. Our primary guideline actions during the fourth quarter of 2008 included adding incremental geographic locations to our declining market policy definition and changes in third-party loan origination guidelines, including restrictions on delegated underwriting guidelines, as well as imposing tighter underwriting guidelines on lower credit and higher loan-to-value risks. Additionally, with increased refinancing activity, we also added new restrictions on FICO and debt-to-income ratios to better manage our capital consumption from new production. We believe these underwriting and pricing actions will improve our underwriting results on these and future books of business under the anticipated economic and housing market environment, and may have an impact on our volume of new insurance written. We will continue to monitor current housing conditions and the performance of our books of business to determine if we need to make further changes in our underwriting guidelines and practices.

Distribution

We distribute our mortgage insurance products through our dedicated sales force throughout the U.S. This sales force primarily markets to financial institutions and mortgage originators, which in turn offer mortgage insurance products to borrowers. In addition to our field sales force, we also distribute our products through a telephone sales force serving our smaller lenders, as well as through our Action Center which provides live phone and web chat-based support for all customer segments.

Competition

We compete primarily with U.S. and state government agencies, other private mortgage insurers, mortgage lenders and other investors, the GSEs and, potentially, the FHLBs. We also compete, indirectly, with structured transactions in the capital markets and with other financial instruments designed to mitigate credit risk.

U.S. and state government agencies. We and other private mortgage insurers compete for flow business directly with U.S. federal and state governmental and quasi-governmental agencies, principally the Federal Housing Administration (FHA) and, to a lesser degree, the Veteran s Administration (VA). In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California, Illinois and New York.

Private mortgage insurers. The private mortgage insurance industry is highly competitive and currently consists of seven mortgage insurers, excluding us. Our private mortgage insurance competitors include Mortgage Guaranty Insurance Corporation; PMI Mortgage Insurance Company; CMG Mortgage Insurance Company; Radian Guaranty Inc.; Republic Mortgage Insurance Company; Triad Guaranty Insurance Corporation; and United Guaranty Residential Insurance Company.

Mortgage lenders and other investors. We and other mortgage insurers compete with transactions structured by mortgage lenders to avoid mortgage insurance on low-down-payment mortgage loans. These transactions include self-insuring and simultaneous second loans, which separate a mortgage with a loan-to-value ratio of more than 80%, which generally would require mortgage insurance, into two loans: a first mortgage with a loan- to-value ratio of 80% and a simultaneous second mortgage for the excess portion of the loan.

The GSEs Fannie Mae, Freddie Mac and FHLBs. As the predominant purchasers of conventional mortgage loans in the U.S., Fannie Mae and Freddie Mac provide a direct link between mortgage origination and capital markets. As discussed above, most high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac are insured with private mortgage insurance issued by an insurer deemed qualified by the GSEs. Our mortgage insurance company is a qualified insurer with both GSEs. Private mortgage insurers may be subject to competition from Fannie Mae and Freddie Mac to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry.

We also compete with structured transactions in the capital markets and with other financial instruments designed to mitigate the risk of mortgage defaults, such as credit default swaps and credit linked notes, with lenders who forego mortgage insurance (self-insure) on loans held in their portfolios, and with mortgage lenders who maintain captive mortgage insurance and reinsurance programs.

Private mortgage insurers must satisfy requirements set by the GSEs to be eligible to insure loans sold to the GSEs, and the GSEs have the ability to implement new eligibility requirements for mortgage insurers. They also have the authority to change the pricing arrangements for purchasing retained-participation mortgages as compared to insured mortgages, increase or reduce required mortgage insurance coverage percentages, and alter or liberalize underwriting standards and pricing terms on low-down-payment mortgages they purchase.

In addition to the GSEs, FHLBs purchase single-family conforming mortgage loans. Although not required to do so, the FHLBs currently use mortgage insurance on substantially all mortgage loans with a loan-to-value ratio above 80%.

Table of Contents

Corporate and Other

Our Corporate and Other activities include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions, the results of non-core businesses that are managed outside our operating segments and our group life and health insurance business, which we sold in May 2007 and was accounted for as discontinued operations.

Discontinued Operations

On May 31, 2007, we completed the sale of our group life and health insurance business for gross cash proceeds of approximately $660 million. Accordingly, the business was accounted for as discontinued operations and its results of operations, financial position and cash flows were separately reported for all periods presented. The sale resulted in a gain on sale of discontinued operations of $51 million, net of taxes.

International Operations

Information regarding our international operations is presented in note 21 to the consolidated financial statements under Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Marketing

As we position ourselves as a specialty insurance provider, we promote and differentiate our products and services through technology, specialized support for our distributors and innovative marketing programs tailored to particular consumer groups.

We offer a range of products that are designed to meet the needs of consumers throughout the various stages of their lives. We are selective in the products we offer and strive to maintain appropriate return and risk thresholds when we expand the scope of our product offerings. We also have developed sophisticated technological tools that enhance performance by automating key processes and reducing response times and process variations. These tools also make it easier for our customers and distributors to do business with us.

We have focused our marketing approach on promoting our brand to key constituencies, including sales intermediaries, employees, investors and consumers. We seek to build recognition of our brand and maintain good relationships with leading distributors by providing a high level of specialized and differentiated distribution support, such as product training, advanced marketing and sales solutions, financial product design for affluent customers and technology solutions that support the distributors sales efforts and by pursuing joint business improvement efforts. In addition, we sponsor various advisory councils with independent sales intermediaries and dedicated sales specialists to gather their feedback on industry trends, new product suggestions and ways to enhance our relationships.

Risk Management

Risk management is a critical part of our business and in the changing economic environment, we seek to adapt and actively manage risk. We have an enterprise risk management framework that includes risk management processes relating to product development and management, business acquisitions, asset-liability management, portfolio diversification and actuarial databases and information systems. The risk management framework includes the assessment of risk, a proactive decision process to determine which risks are acceptable and the ongoing monitoring and management of those risks. We have emphasized our adherence to risk management techniques and leveraged the benefits into a competitive advantage in distribution and management of our products as we are actively trying to mitigate risk in this changing environment.

Table of Contents

Product development and management

Our risk management process begins with the development and introduction of new products and services. We have established a product development process that specifies a series of required analyses, reviews and approvals for any new product. For each proposed product, this process includes a review of the market opportunity and competitive landscape, major pricing assumptions and methodologies, return expectations, reinsurance strategies, underwriting criteria and business risks and potential mitigating factors. Before we introduce a new product, we establish a monitoring program with specific performance targets and leading indicators, which we monitor frequently to identify any deviations from expected performance so that we can take corrective action when necessary. Significant product introductions require approval by our senior management team.

We use a similar process to introduce variations to existing products and to offer existing products in new markets and through new distribution channels. Product performance reviews include an analysis of the major drivers of profitability, underwriting performance and variations from expected results including an in-depth experience analysis of the product s major risk factors. Other areas of focus include the regulatory and competitive environments and other emerging factors that may be affecting product performance.

In addition, we initiate special reviews when a product s performance fails to meet the indicators we established during that product s introductory review process. If a product does not meet our performance criteria, we consider adjustments in pricing, design and marketing or ultimately discontinuing sales of that product. In addition, in our U.S. and international mortgage insurance businesses, we also review the profitability of lender accounts to assess whether our business with these lenders is achieving anticipated performance levels and to identify trends requiring remedial action, including changes to underwriting guidelines, product mix or other customer performance. We review our underwriting, pricing and risk selection strategies on a regular basis to ensure that our products remain competitive and consistent with our marketing and profitability objectives.

Business acquisitions

When we consider an acquisition of a new block or book of business, we use our risk management process to evaluate a business opportunity and assess its strategic fit with our current business model. We have a review process that includes a series of required analyses, reviews and approvals similar to those employed for new product introductions.

Asset-liability management

We maintain segmented investment portfolios for the majority of our product lines. This enables us to perform an ongoing analysis of the interest rate risks associated with each major product line, in addition to the interest rate risk for our overall enterprise. We analyze the behavior of our liability cash flows across a wide variety of future interest rate scenarios, reflecting policy features and expected policyholder behavior. We also analyze the behavior of our asset portfolios across the same scenarios. We believe this analysis shows the sensitivity of both our assets and liabilities to large and small changes in interest rates and enables us to manage our assets and liabilities more effectively. In addition, we have hedging programs to mitigate interest rate risk associated with our assets, liabilities and capital. We also use hedging programs to mitigate equity market risk in our variable annuity products.

Portfolio diversification

We use product new business and in-force limits to manage our risk concentrations and to manage product, business level, geographic and other risk exposures. In addition, our assets are managed within strict limitations to control credit risk and to avoid excessive concentration in our investment portfolio. We seek diversification in our investment portfolio by investing in multiple asset classes, tailored to match the cash flow characteristics of our liabilities. In the current adverse market environment, we are monitoring existing exposures and reducing our holdings, where appropriate.

We also manage unique product exposures in our business segments. For example, in managing our mortgage insurance risk exposure, we carefully monitor geographic concentrations in our portfolio and the condition of housing markets in each country in which we operate. We monitor our concentration of risk in-force at the regional, state and major metropolitan area levels on a quarterly basis. In the U.S., we evaluate the condition of housing markets in major metropolitan areas with our proprietary OmniMarket model, which rates housing markets based on variables such as economic activity, unemployment, mortgage delinquencies, home sales trends and home price changes. We also regularly monitor factors that affect home prices and their affordability by region and major metropolitan area.

Actuarial databases and information systems

Our extensive actuarial databases and innovative information systems technology are important tools in our risk management programs. We believe we have the largest actuarial database for long-term care insurance claims with over 30 years of experience in offering those products. We also have substantial experience in offering individual life insurance products, and we have developed a large database of claims experience, particularly in preferred risk classes, which provides significant predictive experience for mortality.

We use advanced and, in some cases, proprietary technology to manage variations in our underwriting process. For example, in our mortgage insurance businesses, we use borrower credit scores, our proprietary mortgage scoring model, OmniScore®, and/or our extensive database of mortgage insurance experience along with external data including rating agency data to evaluate new products and portfolio performance. In the U.S. and Canada, OmniScore® uses the borrower s credit score and additional data concerning the borrower, the loan and the property, including loan-to-value ratio, loan type, loan amount, property type, occupancy status and borrower employment to predict the likelihood of having to pay a claim. In the U.S., OmniScore® also incorporates our assessment of the housing market in which a property is located, as evaluated with our OmniMarket model. We believe this additional mortgage data and housing market assessment significantly enhances OmniScore ® s predictive power over the life of the loan. We perform portfolio analysis on an ongoing basis to determine if modifications are required to our product offerings, underwriting guidelines or premium rates.

Operations and Technology

Service and support

We have a dedicated team of service and support personnel, supplemented by an outsourcing provider in India who provides back-office support to our sales intermediaries. We use advanced and, in some cases, proprietary, patent-pending technology to provide product design and underwriting, and we operate service centers that leverage technology, integrated processes and process management techniques.

In our Retirement and Protection segment, we interact directly and cost-effectively with our independent sales intermediaries and dedicated sales specialists through secure websites that have enabled them to transact business with us electronically, obtain information about our products, submit applications, check application and account status and view commission information. We also provide our independent sales intermediaries and dedicated sales specialists with account information to disseminate to their customers through the use of industry-standard communications.

We also introduced technologically advanced services to customers in our International and U.S. Mortgage Insurance segments. Advances in technology enable us to accept applications through electronic submission and to issue electronic insurance commitments and certificates to varying degrees across the jurisdictions in which we do business. Through our internet-enabled information systems, lenders can receive information about their loans in our database, as well as make corrections, file notices and claims, report settlement amounts, verify loan information and access payment histories. In the U.S., we also assist in workouts through what we believe is the mortgage insurance industry s first on-line workout approval system, allowing lenders to request and obtain

Table of Contents

authorization from us for them to provide workout solutions to their borrowers. For the years ended December 31, 2008, 2007 and 2006, we received approximately 92%, 92% and 88%, respectively, of our U.S. mortgage insurance applications electronically.

Operating centers

We have centralized most of our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. In addition, through an arrangement with an outsourcing provider, we have a substantial team of professionals in India who provide a variety of services to us, including customer service, transaction processing, and functional support including finance, investment research, actuarial, risk and marketing resources to our insurance operations.

Technology capabilities and process improvement

We rely on proprietary processes for project approval, execution, risk management and benefit verification as part of our approach to technology investment. Our technology team is experienced in large-scale project delivery, including many insurance administration system consolidations and the development of Internet-based servicing capabilities. We continually manage technology costs by standardizing our technology infrastructure, consolidating application systems, reducing servers and storage devices and managing project execution risks.

We believe we have greatly enhanced our operating efficiency, generated significant cost savings and created competitive advantages by using a variety of process tools designed to address all aspects of process management. Our tools enable us to more effectively operate processes, improve our process performance and build new processes. Our team of operational quality experts is focused on driving our process and project execution and championing process management disciplines. We tailor the application of our tools to the specific needs of each project or process resulting in more effective execution.

Reserves

We calculate and maintain reserves for estimated future benefit payments to our policyholders and contractholders in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and industry accounting practices. We release these reserves as those future obligations are extinguished. The reserves we establish reflect estimates and actuarial assumptions with regard to our future experience. These estimates and actuarial assumptions involve the exercise of significant judgment that is subjected to a variety of internal and external independent reviews. Our future financial results depend significantly upon the extent to which our actual future experience is consistent with the assumptions we have used in pricing our products and determining our reserves. Many factors can affect future experience, including economic and social conditions, inflation, healthcare costs and changes in doctrines of legal liability and damage awards in litigation. Therefore, we cannot determine with complete precision the ultimate amounts we will pay for actual future benefits or the timing of those payments.

Reinsurance

We follow the industry practice of reinsuring portions of our insurance risks with reinsurance companies. We use reinsurance both to diversify our risks and to manage loss exposures and capital effectively. Reinsurance is also used to improve available capital and surplus, as well as capital ratios that we manage to target levels. The use of reinsurance permits us to write policies in amounts larger than the risk we are willing to retain, and also to write a larger volume of new business.

We cede insurance primarily on a treaty basis, under which risks are ceded to a reinsurer on specific blocks of business where the underlying risks meet certain predetermined criteria. To a lesser extent, we cede insurance risks on a facultative basis, under which the reinsurer s prior approval is required on each risk reinsured. Use of reinsurance does not discharge us, as the insurer, from liability on the insurance ceded. We, as the insurer, are

required to pay the full amount of our insurance obligations even in circumstances where we are entitled or able to receive payments from our reinsurer. The principal reinsurers to which we cede risks have A.M. Best financial strength ratings ranging from A++ to A-. Historically, we have not had significant concentrations of reinsurance risk with any one reinsurer. However, prior to the completion of the IPO, we entered into reinsurance transactions with Union Fidelity Life Insurance Company (UFLIC), an affiliate of our former parent, which resulted in a significant concentration of reinsurance risk with UFLIC, whose obligations to us are secured by trust accounts as described in note 10 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

The following table sets forth our exposure to our principal reinsurers, including reinsurance recoverable as of December 31, 2008 and the A.M. Best ratings of those reinsurers as of that date:

(Amounts in millions)	Reinsurance recoverable	A.M. Best rating
UFLIC (1)	$ 14,849	A-
Riversource Life Insurance Company (2)	667	A+
Munich American Reassurance Company	275	A+
Swiss Re Life & Health America Inc.	117	A+
General Reinsurance Corporation	102	A++

(1) Prior to our IPO, we entered into several significant reinsurance transactions with UFLIC ceding in-force blocks of structured settlements, substantially all of our in-force blocks of variable annuities and a block of long-term care insurance policies that we reinsured in 2000 from MetLife Insurance Company of Connecticut. See note 10 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

(2) Our reinsurance arrangement with Riversource Life Insurance Company covers a runoff block of single-premium life insurance policies.

We also participate in reinsurance programs in which we share portions of our U.S. mortgage insurance risk written on loans originated or purchased by lenders with captive reinsurance companies affiliated with these lenders. In return, we cede to the captive reinsurers an agreed portion of our gross premiums on flow insurance written. New insurance written through the bulk channel generally is not subject to these arrangements. See Item 1 Business U.S. Mortgage Insurance for additional information regarding reinsurance captives. As of December 31, 2008, we had a reinsurance recovery of $505 million where cumulative losses have exceeded the attachment points in several captive reinsurance arrangements.

Financial Strength Ratings

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Ratings are important to maintaining public confidence in us and our ability to market our products. Rating organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. Short-term financial strength ratings are an assessment of the credit quality of an issuer with respect to an instrument considered short-term in the relevant market, typically one year or less.

Table of Contents

As of February 27, 2009, our principal life insurance subsidiaries were rated by A.M. Best, S&P, Moody s and Fitch as follows:

Company	A.M. Best rating	S&P rating	Moody s rating	Fitch rating
Genworth Life Insurance Company	A (Excellent)	A (Strong)	A1 (Good)	A- (Strong)
Genworth Life Insurance Company (Short-term rating)	Not rated	A-1 (Strong)	P-1 (Superior)	Not rated
Genworth Life and Annuity Insurance Company	A (Excellent)	A (Strong)	A1 (Good)	A- (Strong)
Genworth Life and Annuity Insurance Company (Short-term rating)	Not rated	A-1 (Strong)	P-1 (Superior)	Not rated
Genworth Life Insurance Company of New York	A (Excellent)	A (Strong)	A1 (Good)	A- (Strong)
Continental Life Insurance Company of Brentwood, Tennessee	A- (Excellent)	Not rated	Not rated	A- (Strong)
American Continental Insurance Company	A- (Excellent)	Not rated	Not rated	Not rated

As of February 27, 2009, our mortgage insurance subsidiaries were rated by S&P, Moody s and DBRS as follows:

Company	S&P rating	Moody s rating	DBRS
Genworth Mortgage Insurance Corporation	A+ (Strong)	Baa2 (Adequate)	Not rated
Genworth Residential Mortgage Insurance Corporation of North Carolina	A+ (Strong)	Baa2 (Adequate)	Not rated
Genworth Financial Mortgage Insurance Pty. Ltd	AA- (Very Strong)	A1 (Good)	Not rated
Genworth Financial Mortgage Insurance Limited	A (Strong)	Baa1 (Adequate)	Not rated
Genworth Financial Mortgage Insurance Company Canada	AA (Very Strong)	Not rated	AA (Superior)
Genworth Financial Assurance Corporation	Not rated	Baa2 (Adequate)	Not rated
Genworth Seguros de Credito a la Vivienda S.A. de C.V.	mxAAA	Aa1.mx	Not rated

The A.M. Best, S&P, Moody s, Fitch and DBRS ratings included are not designed to be, and do not serve as, measures of protection or valuation offered to investors. These financial strength ratings should not be relied on with respect to making an investment in our securities.

A.M. Best states that the A (Excellent) and A- (Excellent) ratings are assigned to those companies that have an excellent ability to meet their ongoing obligations to policyholders. The A (Excellent) and A- (Excellent) ratings are the third- and fourth-highest of 15 ratings assigned by A.M. Best, which range from A++ to F.

S&P states that an insurer rated AA (Very Strong) has very strong financial security characteristics and is highly likely to have the ability to meet financial commitments, while an insurer rated A (Strong) has strong financial security characteristics. The AA and A ranges are the second- and third-highest of nine financial strength rating ranges assigned by S&P, which range from AAA to R. A plus (+) or minus (-) shows relative standing in a rating category. Accordingly, the AA, AA-, A+ and A ratings are the third-, fourth-, fifth- and sixth-highest of S&P s 21 ratings categories. The short-term A-1 rating is the highest rating and shows the capacity to meet financial commitments on short-term policy obligations is strong. An obligor rated mxAAA

Table of Contents

has a very strong capacity to meet its financial commitments relative to that of other Mexican obligors. The mxAAA rating is the highest enterprise credit rating assigned on S&P s CaVal national scale.

Moody s states that insurance companies rated A (Good) offer good financial security. Moody s states that insurance companies rated Baa (Adequate) offer adequate financial security. The A (Good) and Baa (Adequate) ranges are the third- and fourth-highest of nine financial strength rating ranges assigned by Moody s, which range from Aaa to C. Numeric modifiers are used to refer to the ranking within the group, with 1 being the highest and 3 being the lowest. Accordingly, the A1, Baa1 and Baa2 ratings are the fifth-, eight- and ninth-highest of Moody s 21 ratings categories. Short-term rating P-1 is the highest rating and shows superior ability for repayment of senior note short-term policyholder claims and obligations. Issuers or issues rated Aa.mx demonstrate very strong creditworthiness relative to other issuers in Mexico.

Fitch states that A (Strong) rated insurance companies are viewed as possessing strong capacity to meet policyholder and contract obligations. The A rating category is the third-highest of eight financial strength rating categories, which range from AAA to C. The symbol (+) or (-) may be appended to a rating to indicate the relative position of a credit within a rating category. These suffixes are not added to ratings in the AAA category or to ratings below the CCC category. Accordingly, the A- rating is the seventh-highest of Fitch s 21 ratings categories.

DBRS states that long-term obligations rated AA are of superior credit quality. Given the extremely restrictive definition DBRS has for the AAA category, entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

In 2008, rating agencies undertook a broad reassessment of the credit and financial strength ratings of life and mortgage insurance companies. The following list summarizes major ratings actions affecting Genworth in 2008:

- On June 30, 2008, Moody s downgraded the insurer financial strength (IFS) ratings of our mortgage insurance companies to Aa3 from Aa2.

- On September 30, 2008, following our announcement that we would examine strategic alternatives for our U.S. mortgage insurance business, Moody s placed all of our ratings on review for possible downgrade. S&P lowered our U.S. and European mortgage insurance financial strength ratings to AA- from AA.

- On October 3, 2008, Fitch placed all of our ratings on Rating Watch Negative following its announcement on September 29, 2008, which changed its life insurance industry outlook from stable to negative.

- On October 21, 2008, Fitch downgraded the IFS ratings of our primary life insurance subsidiaries to A+ from AA-.

- On November 6, 2008, A.M. Best placed our ratings under review with negative implications. This follows A.M. Best s announcement on September 18, 2008 that the life insurance industry outlook changed from stable to negative.

- On November 7, 2008, S&P affirmed the AA- counterparty and financial strength ratings of our life insurance businesses and lowered our long-term counterparty credit and senior debt ratings to A- from A. The outlook on both is negative. S&P also downgraded our commercial paper rating to A-2 from A-1.

- On November 10, 2008, Moody s downgraded the IFS ratings of our primary life insurance subsidiaries to A1 from Aa3.

Table of Contents

- On November 20, 2008, following Genworth s earlier request, Fitch withdrew its ratings on our U.S. and international mortgage insurance businesses and on securities issued by our holding company.

- On December 5, 2008, S&P placed all of our U.S. mortgage insurance companies and core subsidiaries on CreditWatch with negative implications.

- On December 17, 2008, S&P affirmed our AA counterparty and financial strength rating, with negative outlook, for our Australian mortgage insurance business.

- On December 19, 2008, S&P lowered its counterparty and financial strength ratings for our U.S. mortgage insurance business to A+ from AA- and the rating for our European mortgage insurance business to A from AA-. S&P plans to continue its review on our mortgage insurance businesses in the first quarter of 2009.

The following list summarizes major ratings actions affecting Genworth in 2009:

- On February 10, 2009, Moody s placed the ratings of our primary life insurance subsidiaries and securities issued by our holding company on review for possible downgrade.

- On February 13, 2009, Moody s downgraded the IFS of our U.S. mortgage insurance companies to Baa2 from Aa3 and our European mortgage insurance company to Baa1 from Aa3. The outlook for these ratings is developing.

- On February 17, 2009, Fitch downgraded the IFS ratings of our primary life insurance subsidiaries to A- from A+. The ratings outlook is negative.

- On February 19, 2009, Moody s downgraded the IFS ratings of our Australian mortgage insurance business to A1 from Aa3, with a negative outlook.

- On February 19, 2009, A.M. Best downgraded our key life insurance subsidiaries financial strength ratings to A (Excellent) from A+ (Superior). All ratings were removed from under review with negative implications and assigned a negative outlook.