

GENWORTH FINANCIAL INC

FORM 8-K

(Current report filing)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

May 10, 2012

Date of Report

(Date of earliest event reported)



GENWORTH FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

001-32195
(Commission
File Number)

33-1073076
(I.R.S. Employer
Identification No.)

**6620 West Broad Street,
Richmond, VA**
(Address of principal executive offices)

23230
(Zip Code)

(804) 281-6000
(Registrant's telephone number, including area code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

The condensed consolidated financial statements of Genworth Financial Mortgage Insurance Pty Limited, an indirect subsidiary of Genworth Financial, Inc., as of March 31, 2012 and December 31, 2011, and for the three months ended March 31, 2012 and 2011, are included in Exhibit 99.1 to Item 9.01 of this Current Report on Form 8-K.

The information contained in this Current Report on Form 8-K (including the exhibit) is being furnished and shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act, except as otherwise expressly stated in such filing. This information may be included or incorporated by reference in registration statements or reports filed under the Securities Act, or the Exchange Act, in connection with the issuance of asset-backed securities by one or more third parties.

Item 9.01 Financial Statements and Exhibits.

The following material is furnished as an exhibit to this Current Report on Form 8-K:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
99.1	Genworth Financial Mortgage Insurance Pty Limited Condensed Consolidated Financial Statements as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

GENWORTH FINANCIAL, INC.

DATE: May 10, 2012

By: /s/ Amy R. Corbin
Amy R. Corbin
Vice President and Controller
(Principal Accounting Officer)

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Genworth Financial Mortgage Insurance Pty Limited

Condensed Consolidated Balance Sheets
(U.S. dollar amounts in thousands, except share amounts)
(Unaudited)

	March 31,	December 31,
	2012	2011
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$2,820,609	\$2,695,515
Short-term investments	21,832	47,969
Total investments	<u>2,842,441</u>	<u>2,743,484</u>
Cash and cash equivalents	679,722	720,791
Accrued investment income	43,635	38,594
Prepaid reinsurance premiums	289	338
Deferred acquisition costs	56,492	55,807
Net deferred tax asset	8,400	7,218
Goodwill	7,749	7,665
Intangible assets	50,126	50,362
Related party receivables	9,770	8,458
Other assets	40,416	17,732
Total assets	<u>\$3,739,040</u>	<u>\$3,650,449</u>
Liabilities and stockholders' equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 342,071	\$ 272,028
Unearned premiums	1,070,698	1,046,449
Related party payables	88,176	88,938
Long-term borrowings	144,844	143,276
Other liabilities and accrued expenses	81,616	80,781
Total liabilities	<u>1,727,405</u>	<u>1,631,472</u>
Stockholders' equity:		
Ordinary shares – No par value; 1,401,558,880 shares authorized and issued as of March 31, 2012 and December 31, 2011	—	—
Additional paid-in capital	625,312	627,085
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	47,853	49,386
Net unrealized gains (losses) on other-than-temporarily impaired securities	—	—
Net unrealized investment gains (losses)	47,853	49,386
Foreign currency translation adjustments	491,311	468,800
Total accumulated other comprehensive income (loss)	539,164	518,186
Retained earnings	847,159	873,706
Total stockholders' equity	<u>2,011,635</u>	<u>2,018,977</u>
Total liabilities and stockholders' equity	<u>\$3,739,040</u>	<u>\$3,650,449</u>

See Notes to Condensed Consolidated Financial Statements

Genworth Financial Mortgage Insurance Pty Limited

Condensed Consolidated Statements of Income
(U.S. dollar amounts in thousands)
(Unaudited)

	Three months ended	
	March 31,	
	<u>2012</u>	<u>2011</u>
Revenues:		
Net premiums	\$ 86,421	\$ 90,682
Net investment income	46,468	42,856
Net investment gains (losses)	294	337
Other income	1,809	385
Total revenues	<u>134,992</u>	<u>134,260</u>
Losses and expenses:		
Net losses and loss adjustment expenses	138,120	42,006
Acquisition and operating expenses, net of deferrals	22,916	21,152
Amortization of deferred acquisition costs and intangibles	6,521	6,537
Interest expense	3,601	—
Total losses and expenses	<u>171,158</u>	<u>69,695</u>
Income (loss) before income taxes	(36,166)	64,565
Provision (benefit) for income taxes	(9,619)	20,863
Net income (loss)	<u>\$ (26,547)</u>	<u>\$ 43,702</u>
Supplemental disclosures:		
Total other-than-temporary impairments	\$ —	\$ —
Portion of other-than-temporary impairments included in other comprehensive income	—	—
Net other-than-temporary impairments	—	—
Other investment gains	294	337
Total net investment gains (losses)	<u>\$ 294</u>	<u>\$ 337</u>

See Notes to Condensed Consolidated Financial Statements

Genworth Financial Mortgage Insurance Pty Limited
Condensed Consolidated Statements of Comprehensive Income
(U.S. dollar amounts in thousands)
(Unaudited)

	Three months ended	
	March 31,	
	2012	2011
Net income (loss)	\$(26,547)	\$43,702
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,533)	15,126
Net unrealized gains (losses) on other-than-temporarily impaired securities	—	—
Foreign currency translation and other adjustments	22,511	22,769
Total other comprehensive income (loss)	20,978	37,895
Total comprehensive income (loss)	<u>\$ (5,569)</u>	<u>\$81,597</u>

See Notes to Condensed Consolidated Financial Statements

Genworth Financial Mortgage Insurance Pty Limited
Condensed Consolidated Statements of Changes in Stockholders' Equity
(U.S. dollar amounts in thousands)
(Unaudited)

	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balances as of December 31, 2011	\$627,085	\$ 518,186	\$873,706	\$2,018,977
Comprehensive income (loss):				
Net loss	—	—	(26,547)	(26,547)
Net unrealized gains on investment securities	—	(1,533)	—	(1,533)
Foreign currency translation adjustments	—	22,511	—	22,511
Total comprehensive income (loss)				(5,569)
Return of capital to parent	(1,773)	—	—	(1,773)
Balances as of March 31, 2012	<u>\$625,312</u>	<u>\$ 539,164</u>	<u>\$847,159</u>	<u>\$2,011,635</u>
	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
Balances as of December 31, 2010	\$621,929	\$ 470,649	\$753,591	\$1,846,169
Comprehensive income (loss):				
Net income	—	—	43,702	43,702
Net unrealized gains on investment securities	—	15,126	—	15,126
Foreign currency translation adjustments	—	22,769	—	22,769
Total comprehensive income (loss)				81,597
Capital contribution	200	—	—	200
Balances as of March 31, 2011	<u>\$622,129</u>	<u>\$ 508,544</u>	<u>\$797,293</u>	<u>\$1,927,966</u>

See Notes to Condensed Consolidated Financial Statements

Genworth Financial Mortgage Insurance Pty Limited
Condensed Consolidated Statements of Cash Flows
(U.S. dollar amounts in thousands)
(Unaudited)

	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ (26,547)	\$ 43,702
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of investment discounts and premiums	554	(185)
Net investment (gains) losses	(294)	(337)
Acquisition costs deferred	(5,357)	(4,081)
Amortization of deferred acquisition costs and intangibles	6,521	6,537
Deferred income taxes	(209)	35
Corporate overhead allocation	3,888	4,404
Change in certain assets and liabilities:		
Accrued investment income and other assets	(29,816)	(20,871)
Reserve for losses and loss adjustment expenses	69,083	15,485
Unearned premiums	12,641	(31,976)
Other liabilities	(7,489)	25,904
Net cash from operating activities	<u>22,975</u>	<u>38,617</u>
Cash flows from investing activities:		
Proceeds from maturities and repayments of fixed maturity securities and short-term investments	173,947	204,152
Purchases of fixed maturity securities and short-term investments	(246,436)	(272,937)
Net cash from investing activities	<u>(72,489)</u>	<u>(68,785)</u>
Effect of exchange rate changes on cash and cash equivalents	8,445	2,901
Net change in cash and cash equivalents	<u>(41,069)</u>	<u>(27,267)</u>
Cash and cash equivalents at beginning of period	<u>720,791</u>	<u>272,092</u>
Cash and cash equivalents at end of period	<u>\$ 679,722</u>	<u>\$ 244,825</u>

See Notes to Condensed Consolidated Financial Statements

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

(1) Nature of Business, Formation of Genworth Mortgage and Basis of Presentation

Genworth Financial Mortgage Insurance Pty Limited (“Genworth Mortgage” or the “Company” as appropriate) offers mortgage insurance products in Australia and is headquartered in Sydney, Australia. In particular, the Company offers primary mortgage insurance, known as “lenders mortgage insurance,” or LMI, and portfolio credit enhancement policies. Until September 2011, Genworth Mortgage also offered LMI in New Zealand. The principal product is LMI, which is generally single premium business and provides 100% coverage of the loan amount in the event of a mortgage default. The nature of the Australian economy is that the majority of mortgages are originated through the country’s top four largest banks; therefore, the Company has a high concentration of business written over mortgages originating through these lenders.

The Company’s condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) disclosure requirements for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These condensed consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of operations and cash flow for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited financial statements and related notes contained in our 2011 year end financial statements on Form 8-K furnished on March 30, 2012.

The Company’s management has determined that the Company has one reportable operating segment, mortgage insurance.

The condensed consolidated financial statements are presented in U.S. dollars. The accompanying financial statements include Genworth Financial Mortgage Indemnity Limited and are prepared on a consolidated basis. All intercompany transactions have been eliminated in the consolidated financial statements.

Genworth Mortgage was incorporated in Australia on November 10, 2003. Prior to December 2011, Genworth Financial Mortgage Insurance Holdings Pty Limited owned 87% of the issued share capital of the Company and Genworth Financial Services Pty Ltd, which is 100% owned by the same immediate parent of Genworth Financial Mortgage Insurance Holding Pty Limited, owned 13% of the issued share capital of the Company. During the year ended December 31, 2011, Genworth Financial Mortgage Insurance Holdings Pty Limited sold its remaining 87% of the issued share capital of the Company to Genworth Financial Services Pty Ltd. The ultimate parent company of Genworth Mortgage is Genworth Financial, Inc. (“Genworth”). Genworth was incorporated in Delaware on October 23, 2003. The Company is the principal operating entity of Genworth’s Australian mortgage insurance business.

(2) Accounting Pronouncements

Recently adopted

On January 1, 2012, we adopted new accounting guidance requiring presentation of the components of net income (loss), the components of other comprehensive income (loss) (“OCI”) and total comprehensive income either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements adopted this new guidance retrospectively. The Financial Accounting Standards Board (“FASB”) issued an amendment relating to this new guidance for presentation of the reclassification of items out of accumulated other comprehensive income into net income that removed this requirement until further guidance is issued. The adoption of this new accounting guidance did not have any impact on our consolidated financial results.

On January 1, 2012, we adopted new accounting guidance related to fair value measurements. This new accounting guidance clarified existing fair value measurement requirements and changed certain fair value measurement principles and disclosure requirements. The adoption of this accounting guidance did not have any impact on our consolidated financial statements.

On January 1, 2012, we adopted new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts. Acquisition costs include costs that are related directly to the successful acquisition of our insurance policies, which are deferred and amortized in accordance with the expected pattern of risk emergence. These costs include costs incurred in the acquisition, underwriting and processing of new business including printing costs, sales material and, some support costs such as underwriting and contract and policy issuance expenses. Deferred acquisition costs (“DAC”) relating to each underwriting year is charged against revenue over time in accordance with the expected pattern of risk emergence. We adopted this new guidance retrospectively, which reduced retained earnings and stockholders’ equity by \$35 million as of January 1, 2011, and reduced net income (loss) by \$4 million, \$2 million and \$2 million for the years ended December 31, 2011, 2010 and 2009, respectively. This new guidance results in lower amortization and fewer deferred costs, specifically related to underwriting, inspection and processing for contracts that are not issued, as well as advertising and customer solicitation.

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

The following table presents the balance sheet as of December 31, 2011 reflecting the impact of the accounting change that was retrospectively adopted on January 1, 2012:

<u>(U.S. dollar amounts in thousands)</u>	<u>As Originally Reported</u>	<u>Effect of DAC Change</u>	<u>As Adjusted</u>
Assets			
Total investments	\$2,743,484	\$ —	\$2,743,484
Cash and cash equivalents	720,791	—	720,791
Accrued investment income	38,594	—	38,594
Prepaid reinsurance premiums	338	—	338
Deferred acquisition costs	111,261	(55,454)	55,807
Net deferred tax asset	—	7,218	7,218
Goodwill	7,665	—	7,665
Intangible assets	50,362	—	50,362
Related party receivables	8,458	—	8,458
Other assets	17,732	—	17,732
Total assets	<u>\$3,698,685</u>	<u>\$(48,236)</u>	<u>\$3,650,449</u>
Liabilities and stockholders' equity			
Liabilities:			
Reserve for losses and loss adjustment expenses	\$ 272,028	\$ —	\$ 272,028
Unearned premiums	1,046,449	—	1,046,449
Net deferred tax liability	9,417	(9,417)	—
Related party payables	88,938	—	88,938
Long-term borrowings	143,276	—	143,276
Other liabilities and accrued expenses	80,781	—	80,781
Total liabilities	<u>1,640,889</u>	<u>(9,417)</u>	<u>1,631,472</u>
Stockholders' equity:			
Ordinary shares	—	—	—
Additional paid-in capital	627,085	—	627,085
Accumulated other comprehensive income (loss):			
Net unrealized investment gains (losses):			
Net unrealized gains (losses) on securities not other-than-temporarily impaired	49,386	—	49,386
Net unrealized gains (losses) on other-than-temporarily impaired securities	—	—	—
Net unrealized investment gains (losses)	<u>49,386</u>	<u>—</u>	<u>49,386</u>
Foreign currency translation and other adjustments	475,783	(6,983)	468,800
Total accumulated other comprehensive income (loss)	<u>525,169</u>	<u>(6,983)</u>	<u>518,186</u>
Retained earnings	905,542	(31,836)	873,706
Total stockholders' equity	<u>2,057,796</u>	<u>(38,819)</u>	<u>2,018,977</u>
Total liabilities and stockholders' equity	<u>\$3,698,685</u>	<u>\$(48,236)</u>	<u>\$3,650,449</u>

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

The following table presents the income statement for the three months ended March 31, 2011 reflecting the impact of the accounting change that was retrospectively adopted on January 1, 2012:

<u>(U.S. dollar amounts in thousands)</u>	<u>As Originally Reported</u>	<u>Effect of DAC Change</u>	<u>As Adjusted</u>
Revenues:			
Net premiums	\$ 90,682	\$ —	\$ 90,682
Net investment income	42,856	—	42,856
Net investment gains (losses)	337	—	337
Other income	385	—	385
Total revenues	<u>134,260</u>	<u>—</u>	<u>134,260</u>
Losses and expenses:			
Net losses and loss adjustment expenses	42,006	—	42,006
Acquisition and operating expenses, net of deferrals	16,295	4,857	21,152
Amortization of deferred acquisition costs and intangibles	11,106	(4,569)	6,537
Total losses and expenses	<u>69,407</u>	<u>288</u>	<u>69,695</u>
Income before income taxes	64,853	(288)	64,565
Provision for income taxes	20,949	(86)	20,863
Net income	<u>\$ 43,904</u>	<u>\$ (202)</u>	<u>\$ 43,702</u>

The following table presents the cash flows from operating activities for the three months ended March 31, 2011 reflecting the impact of the accounting change that was retrospectively adopted on January 1, 2012:

<u>(U.S. dollar amounts in thousands)</u>	<u>As Originally Reported</u>	<u>Effect of DAC Change</u>	<u>As Adjusted</u>
Cash flows from operating activities:			
Net income	\$ 43,904	\$ (202)	\$ 43,702
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of investment discounts and premiums	(185)	—	(185)
Net investment (gains) losses	(337)	—	(337)
Acquisition costs deferred	(8,938)	4,857	(4,081)
Amortization of deferred acquisition costs and intangibles	11,106	(4,569)	6,537
Deferred income taxes	121	(86)	35
Corporate overhead allocation	4,404	—	4,404
Change in certain assets and liabilities:			
Accrued investment income and other assets	(20,871)	—	(20,871)
Reserve for losses and loss adjustment expenses	15,485	—	15,485
Unearned premiums	(31,976)	—	(31,976)
Other liabilities	25,904	—	25,904
Net cash from operating activities	<u>\$ 38,617</u>	<u>\$ —</u>	<u>\$ 38,617</u>

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

Not Yet Adopted

In December 2011, the FASB issued new accounting guidance for disclosures about offsetting assets and liabilities. The new guidance requires an entity to disclose information about offsetting and related arrangements to enable users to understand the effect of those arrangements on its financial position. These new disclosure requirements will be effective for us on January 1, 2013 and are not expected to have any impact on our consolidated financial statements.

(3) Investments

(a) Net Investment Income

Sources of net investment income were as follows for the periods indicated:

<u>(U.S. dollar amounts in thousands)</u>	Three months ended	
	March 31,	
	2012	2011
Fixed maturity securities	\$39,132	\$41,088
Cash and cash equivalents	8,198	2,998
Gross investment income before expenses and fees	47,330	44,086
Expenses and fees	(862)	(1,230)
Net investment income	<u>\$46,468</u>	<u>\$42,856</u>

(b) Net Investment Gains (Losses)

The net investment gains (losses) were as follows for the periods indicated:

<u>(U.S. dollar amounts in thousands)</u>	Three months ended	
	March 31,	
	2012	2011
Available-for-sale investment securities:		
Realized gains on sale	\$ 2,202	\$ 563
Realized losses on sale	(1,908)	(226)
Net realized gains (losses) on available-for-sale securities	<u>294</u>	<u>337</u>
Impairments:		
Total other-than-temporary impairments	—	—
Portion of other-than-temporary impairments included in other comprehensive income (loss)	—	—
Net other-than-temporary impairments	<u>—</u>	<u>—</u>
Net investment gains (losses)	<u>\$ 294</u>	<u>\$ 337</u>

The Company generally intends to hold securities in unrealized loss positions until they recover. However, from time to time, the intent on an individual security may change, based upon market or other unforeseen developments. In such instances, the Company sells securities in the ordinary course of managing its portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which the intent to hold the securities to recovery no longer exists. The aggregate fair value of securities sold at a loss for the three months ended March 31, 2012 and 2011 was \$14 million and \$30 million, respectively, which was approximately 88% and 99%, respectively, of book value.

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

(c) Unrealized Investment Gains (Losses)

Net unrealized gains (losses) on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income (loss) were as follows for the dates indicated:

<u>(U.S. dollar amounts in thousands)</u>	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Net unrealized gains (losses) on available-for-sale investment securities:		
Fixed maturity securities	\$ 68,334	\$ 70,536
Deferred income taxes	(20,481)	(21,150)
Net unrealized investment gains (losses)	<u>\$ 47,853</u>	<u>\$ 49,386</u>

The change in net unrealized gains (losses) on available-for-sale investment securities reported in accumulated other comprehensive income (loss) was as follows for the three months ended March 31:

<u>(U.S. dollar amounts in thousands)</u>	<u>2012</u>	<u>2011</u>
Beginning balance	\$49,386	\$ (5,270)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(1,908)	21,876
Provision for deferred taxes	581	(6,514)
Change in unrealized gains (losses)	(1,327)	15,362
Reclassification adjustments to net investment gains (losses), net of taxes of \$88 and \$101	(206)	(236)
Ending balance	<u>\$47,853</u>	<u>\$ 9,856</u>

(d) Fixed Maturity Securities

As of March 31, 2012, the amortized cost or cost, gross unrealized gains (losses) and fair value of the fixed maturity securities classified as available-for-sale were as follows:

<u>(U.S. dollar amounts in thousands)</u>	<u>Amortized</u> <u>cost or cost</u>	<u>Gross unrealized gains on securities</u>		<u>Gross unrealized losses on securities</u>		<u>Fair value</u>
		<u>Not other-than-</u> <u>temporarily</u> <u>impaired</u>	<u>Other-than-</u> <u>temporarily</u> <u>impaired</u>	<u>Not other-than-</u> <u>temporarily</u> <u>impaired</u>	<u>Other-than-</u> <u>temporarily</u> <u>impaired</u>	
Fixed maturity securities:						
Government—non-U.S.	\$ 346,269	\$ 12,479	\$ —	\$ (17)	\$ —	\$ 358,731
Corporate—U.S.	52,492	2,315	—	(32)	—	54,775
Corporate—non-U.S.	2,303,200	56,311	—	(2,586)	—	2,356,925
Residential mortgage-backed securities	50,178	—	—	—	—	50,178
Total available-for-sale securities	<u>\$2,752,139</u>	<u>\$ 71,105</u>	<u>\$ —</u>	<u>\$ (2,635)</u>	<u>\$ —</u>	<u>\$2,820,609</u>

Genworth Financial Mortgage Insurance Pty Limited
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2012 and 2011
(Unaudited)

As of December 31, 2011, the amortized cost or cost, gross unrealized gains (losses) and fair value of the fixed maturity securities classified as available-for-sale were as follows:

(U.S. dollar amounts in thousands)	Amortized cost or cost	Gross unrealized gains on securities		Gross unrealized losses on securities		Fair value
		Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	Other-than-temporarily impaired	
Fixed maturity securities:						
Government—non-U.S.	\$ 360,793	\$ 15,528	\$ —	\$ (4)	\$ —	\$ 376,317
Corporate—U.S.	57,299	2,363	—	(200)	—	59,462
Corporate—non-U.S.	2,157,291	59,439	—	(6,629)	—	2,210,101
Residential mortgage-backed securities	49,635	—	—	—	—	49,635
Total available-for-sale securities	<u>\$2,625,018</u>	<u>\$ 77,330</u>	<u>\$ —</u>	<u>\$ (6,833)</u>	<u>\$ —</u>	<u>\$2,695,515</u>

The following table presents the fair values and gross unrealized losses of investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2012:

(U.S. dollar amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized		Fair value	Gross unrealized		Fair value	Gross unrealized	
		losses	Number of securities		losses	Number of securities		losses	Number of securities
Description of Securities									
Fixed maturity securities:									
Government—non-U.S.	\$ 870	\$ (17)	2	\$ —	\$ —	—	\$ 870	\$ (17)	2
Corporate—U.S.	5,476	(32)	1	—	—	—	5,476	(32)	1
Corporate—non-U.S.	172,512	(643)	14	18,604	(1,943)	3	191,116	(2,586)	17
Total for securities in an unrealized loss position	<u>\$178,858</u>	<u>\$ (692)</u>	<u>17</u>	<u>\$18,604</u>	<u>\$ (1,943)</u>	<u>3</u>	<u>\$197,462</u>	<u>\$ (2,635)</u>	<u>20</u>
% Below cost—fixed maturity securities:									
<20% Below cost	\$178,858	\$ (692)	17	\$18,604	\$ (1,943)	3	\$197,462	\$ (2,635)	20
Total for securities in an unrealized loss position	<u>\$178,858</u>	<u>\$ (692)</u>	<u>17</u>	<u>\$18,604</u>	<u>\$ (1,943)</u>	<u>3</u>	<u>\$197,462</u>	<u>\$ (2,635)</u>	<u>20</u>
Investment grade	\$178,858	\$ (692)	17	\$18,604	\$ (1,943)	3	\$197,462	\$ (2,635)	20
Below investment grade	—	—	—	—	—	—	—	—	—
Total for securities in an unrealized loss position	<u>\$178,858</u>	<u>\$ (692)</u>	<u>17</u>	<u>\$18,604</u>	<u>\$ (1,943)</u>	<u>3</u>	<u>\$197,462</u>	<u>\$ (2,635)</u>	<u>20</u>

As indicated in the table above, all of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to credit spreads that have widened since acquisition for corporate securities primarily in the finance and insurance sector. For securities that have been in a continuous unrealized loss for less than 12 months, the average fair value percentage below cost was approximately 1% as of March 31, 2012.

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Fixed Maturity Securities In A Continuous Unrealized Loss Position For 12 Months Or More

Of the \$2 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was “BBB-” and 100% were investment grade as of March 31, 2012. These unrealized losses were attributable to the widening of credit spreads for these securities since acquisition, primarily associated with corporate securities in the finance and insurance sector. The average fair value percentage below cost for these securities was approximately 9% as of March 31, 2012.

We expect our investments in corporate securities will continue to perform in accordance with our conclusions about the amount and timing of estimated cash flows. Although we do not anticipate such events, it is at least reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize potential future write-downs within our portfolio of corporate securities.

Given the current market conditions, including current financial industry events and uncertainty around global economic conditions, the fair value of these securities has declined due to credit spreads that have widened since acquisition. In our examination of these securities, we considered all available evidence, including the issuers’ financial condition and current industry events to develop our conclusion on the amount and timing of cash flows expected to be collected. Based on this evaluation, we determined that the unrealized losses on these securities represented temporary impairments as of March 31, 2012.

The following table presents the fair values and gross unrealized losses of investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of December 31, 2011:

	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
<i>(U.S. dollar amounts in thousands)</i>									
Description of Securities									
Fixed maturity securities:									
Government—non-U.S.	\$ —	\$ —	—	\$ 409	\$ (4)	1	\$ 409	\$ (4)	1
Corporate—U.S.	11,797	(64)	4	12,140	(136)	1	23,937	(200)	5
Corporate—non-U.S.	219,358	(1,706)	20	45,517	(4,923)	5	264,875	(6,629)	25
Total for securities in an unrealized loss position	<u>\$231,155</u>	<u>\$ (1,770)</u>	<u>24</u>	<u>\$58,066</u>	<u>\$ (5,063)</u>	<u>7</u>	<u>\$289,221</u>	<u>\$ (6,833)</u>	<u>31</u>
% Below cost—fixed maturity securities:									
<20% Below cost	\$231,155	\$ (1,770)	24	\$54,189	\$ (3,905)	6	\$285,344	\$ (5,675)	30
20%-50% Below cost	—	—	—	3,877	(1,158)	1	3,877	(1,158)	1
Total for securities in an unrealized loss position	<u>\$231,155</u>	<u>\$ (1,770)</u>	<u>24</u>	<u>\$58,066</u>	<u>\$ (5,063)</u>	<u>7</u>	<u>\$289,221</u>	<u>\$ (6,833)</u>	<u>31</u>
Investment grade	\$231,155	\$ (1,770)	24	\$58,066	\$ (5,063)	7	\$289,221	\$ (6,833)	31
Below investment grade	—	—	—	—	—	—	—	—	—
Total for securities in an unrealized loss position	<u>\$231,155</u>	<u>\$ (1,770)</u>	<u>24</u>	<u>\$58,066</u>	<u>\$ (5,063)</u>	<u>7</u>	<u>\$289,221</u>	<u>\$ (6,833)</u>	<u>31</u>

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The scheduled maturity distribution of fixed maturity securities as of March 31, 2012 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties .

<u>(U.S. dollar amounts in thousands)</u>	<u>Amortized cost or cost</u>	<u>Fair value</u>
Due one year or less	\$ 251,617	\$ 253,126
Due after one year through five years	1,855,039	1,903,540
Due after five years through ten years	595,305	613,765
Due after ten years	—	—
Subtotal	<u>2,701,961</u>	<u>2,770,431</u>
Residential mortgage-backed securities	<u>50,178</u>	<u>50,178</u>
Total	<u>\$2,752,139</u>	<u>\$2,820,609</u>

As of March 31, 2012, \$24 million of investments were subject to certain call provisions. Typically, call provisions provide the issuer the ability to redeem a security, prior to its stated maturity, at or above par.

(e) Investment Concentrations

As of March 31, 2012, securities issued by finance and insurance industry groups and foreign state government represented approximately 19% and 30%, respectively, of the corporate fixed maturity securities portfolio held by the Company.

As of March 31, 2012, the Company held \$205 million in corporate fixed maturity securities issued by National Australia Bank Limited, which comprised 10% of total stockholders' equity as of March 31, 2012. Additionally, the Company held \$256 million in corporate fixed maturity securities issued by the New South Wales Treasury Corporation and \$239 million in corporate fixed maturity securities issued by the Queensland Treasury Corporation, which comprised 13% and 12%, respectively, of total stockholders' equity. No other single issuer exceeded 10% of total stockholders' equity.

(4) Fair Value Measurements

Recurring Fair Value Measurements

We have fixed maturity securities which are carried at fair value. Below is a description of the valuation techniques and inputs used to determine fair value by class of instrument.

Fixed maturity securities

The valuations of fixed maturity securities are determined using a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information.

We utilize certain third-party data providers when determining fair value. We consider information obtained from third-party pricing services as well as third-party broker provided prices, or broker quotes, in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by third-party pricing services and broker quotes, management determines the fair value of our investment securities after considering all relevant and available information. We also obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received and determine the appropriate fair value.

In general, we first obtain valuations from pricing services. If a price is not supplied by a pricing service, we will typically seek a broker quote. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for identical securities are not readily observable and these securities are not typically valued by pricing services. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quote valuation is available, we determine fair value using internal models.

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For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs.

For private fixed maturity securities, we utilize an internal model to determine fair value and utilize public bond spreads by sector, rating and maturity to develop the market rate that would be utilized for a similar public bond. We then add an additional premium to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We assign each security an internal rating to determine an appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds to determine whether the spreads utilized would be considered observable inputs for the private placement being valued. To determine the significance of unobservable inputs, we calculate the impact on the valuation from the unobservable input and will classify a security as Level 3 when the impact on the valuation exceeds 10%.

For remaining securities priced using internal models, we maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

The following table summarizes the primary sources considered when determining fair value of each class of fixed maturity securities as of March 31, 2012:

<u>(U.S. dollar amounts in thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government—non-U.S.:				
Pricing services	\$ 357,861	\$ —	\$ 357,861	\$ —
Internal models	870	—	—	870
Total government—non-U.S.	<u>358,731</u>	<u>—</u>	<u>357,861</u>	<u>870</u>
Corporate—U.S.:				
Pricing services	54,775	—	54,775	—
Total corporate—U.S.	<u>54,775</u>	<u>—</u>	<u>54,775</u>	<u>—</u>
Corporate—non-U.S.:				
Pricing services	2,356,925	—	2,356,925	—
Total corporate—non-U.S.	<u>2,356,925</u>	<u>—</u>	<u>2,356,925</u>	<u>—</u>
Residential mortgage-backed securities:				
Internal models	50,178	—	—	50,178
Total residential mortgage-backed securities	<u>50,178</u>	<u>—</u>	<u>—</u>	<u>50,178</u>
Total fixed maturity securities	<u>\$ 2,820,609</u>	<u>\$ —</u>	<u>\$ 2,769,561</u>	<u>\$ 51,048</u>

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The following table summarizes the primary sources considered when determining fair value of each class of fixed maturity securities as of December 31, 2011:

<u>(U.S. dollar amounts in thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government—non-U.S.:				
Pricing services	\$ 375,478	\$ —	\$ 375,478	\$ —
Internal models	839	—	—	839
Total government—non-U.S.	<u>376,317</u>	<u>—</u>	<u>375,478</u>	<u>839</u>
Corporate—U.S.:				
Pricing services	59,462	—	59,462	—
Total corporate—U.S.	<u>59,462</u>	<u>—</u>	<u>59,462</u>	<u>—</u>
Corporate—non-U.S.:				
Pricing services	2,210,101	—	2,210,101	—
Total corporate—non-U.S.	<u>2,210,101</u>	<u>—</u>	<u>2,210,101</u>	<u>—</u>
Residential mortgage-backed securities:				
Internal models	49,635	—	—	49,635
Total residential mortgage-backed securities	<u>49,635</u>	<u>—</u>	<u>—</u>	<u>49,635</u>
Total fixed maturity securities	<u>\$ 2,695,515</u>	<u>\$ —</u>	<u>\$ 2,645,041</u>	<u>\$ 50,474</u>

The following tables set forth our assets that are measured at fair value on a recurring basis as of the dates indicated:

<u>(U.S. dollar amounts in thousands)</u>	<u>March 31, 2012</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Fixed maturity securities:				
Government—non-U.S.	\$ 358,731	\$ —	\$ 357,861	\$ 870
Corporate—U.S.	54,775	—	54,775	—
Corporate—non-U.S.	2,356,925	—	2,356,925	—
Residential mortgage-backed securities	50,178	—	—	50,178
Total fixed maturity securities	<u>\$ 2,820,609</u>	<u>\$ —</u>	<u>\$ 2,769,561</u>	<u>\$ 51,048</u>

<u>(U.S. dollar amounts in thousands)</u>	<u>December 31, 2011</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments:				
Fixed maturity securities:				
Government—non-U.S.	\$ 376,317	\$ —	\$ 375,478	\$ 839
Corporate—U.S.	59,462	—	59,462	—
Corporate—non-U.S.	2,210,101	—	2,210,101	—
Residential mortgage-backed securities	49,635	—	—	49,635
Total fixed maturity securities	<u>\$ 2,695,515</u>	<u>\$ —</u>	<u>\$ 2,645,041</u>	<u>\$ 50,474</u>

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The following tables present additional information about assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value as of or for the dates indicated:

(U.S. dollar amounts in thousands)	Beginning balance as of January 1, 2012	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of March 31, 2012	Total gains (losses) included in net income (loss) attributable to assets still held
		Included in net income (loss)	Included in OCI								
Fixed maturity securities:											
Government—non-U.S.	\$ 839	\$ —	\$ 31	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 870	\$ —
Residential mortgage-backed securities	49,635	—	543	—	—	—	—	—	—	50,178	—
Total Level 3 assets	<u>\$ 50,474</u>	<u>\$ —</u>	<u>\$ 574</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51,048</u>	<u>\$ —</u>

(U.S. dollar amounts in thousands)	Beginning balance as of January 1, 2011	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer in Level 3	Transfer out of Level 3	Ending balance as of March 31, 2011	Total gains (losses) included in net income (loss) attributable to assets still held
		Included in net income (loss)	Included in OCI								
Fixed maturity securities:											
Government—non-U.S.	\$ 835	\$ —	\$ (18)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 817	\$ —
Residential mortgage-backed securities	49,715	—	531	—	—	—	—	—	—	50,246	—
Total Level 3 assets	<u>\$ 50,550</u>	<u>\$ —</u>	<u>\$ 513</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51,063</u>	<u>\$ —</u>

Realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either net investment gains (losses) within the consolidated statements of income or OCI within stockholders' equity based on the appropriate accounting treatment for the instrument.

Purchases, sales, issuances and settlements represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity consists of purchases and sales of fixed maturity securities.

The amount presented for unrealized gains (losses) for assets still held as of the reporting date primarily represents accretion on certain fixed maturity securities which were recorded in net investment gains (losses).

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Certain classes of instruments classified as Level 3 are excluded below as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value. The following table presents a summary of the significant unobservable inputs used for certain fair value measurements that are based on internal models and classified as Level 3 as of March 31, 2012:

<u>(U.S. dollar amounts in thousands)</u>	<u>Fair value</u>	<u>Unobservable input</u>	<u>Range</u>
Assets:			
Fixed maturity securities:			
Residential mortgage-backed securities	\$50,178	Credit spreads	50bps - 100bps

(5) Reserve for Losses and Loss Adjustment Expenses

The following table sets forth changes in the reserve for losses and loss adjustment expenses for the dates indicated:

<u>(U.S. dollar amounts in thousands)</u>	<u>As of or for the three months ended March 31,</u>	
	<u>2012</u>	<u>2011</u>
Balance as of January 1	\$272,028	\$205,934
Incurred related to insured events of:		
Current year	71,581	70,448
Prior years	66,539	(28,442)
Total incurred	<u>138,120</u>	<u>42,006</u>
Paid related to insured events of:		
Current year	(413)	(1,422)
Prior years	(68,624)	(25,100)
Total paid	<u>(69,037)</u>	<u>(26,522)</u>
Impact of foreign currency translation	960	2,096
Balance as of March 31	<u>\$342,071</u>	<u>\$223,514</u>

In 2012, total incurred losses increased primarily as a result of reserve strengthening of \$82 million to reflect an adverse change in frequency and severity experience that emerged during 2012. This was primarily driven by higher than anticipated frequency and severity of claims paid from later stage delinquencies from prior years, particularly in coastal tourism areas of Queensland as a result of regional economic pressures, as well as our 2007 and 2008 vintages which have a higher concentration of self-employed borrowers. The increase in prior year reserves of \$67 million was primarily attributable to the reserve strengthening in 2012 and from the aging of delinquencies, partially offset by realized benefits from our ongoing loss mitigation activities.

In 2011, prior year reserves decreased by \$28 million primarily driven by realized benefits from our ongoing loss mitigation activities.

Paid claims also increased in the current year driven by a combination of increases in the number of claims paid and higher average claim payments as we experienced a higher rate of conversion from later stage delinquency to claim.

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(6) Securitization Entities

Part of the Company's product offering includes portfolio credit enhancement policies to Australian regulated lenders that have originated housing loans for securitization in the Australian, European and U.S. markets. Portfolio mortgage insurance serves as an important form of credit enhancement for the Australian securitization market and the Company's portfolio credit enhancement coverage is generally purchased for low loan-to-value, seasoned loans written by regulated institutions.

As of March 31, 2012 and December 31, 2011, the Company had a maximum exposure to loss from the provision of portfolio credit enhancement to securitization trusts sponsored by third parties of \$158 million and \$157 million, respectively. The exchange rate for calculating the maximum exposure to loss of translating the Australian dollar into the U.S. dollar as of March 31, 2012 and December 31, 2011 was \$1.03 and \$1.02, respectively. This exposure was calculated based on the expectation of a 1 in 250 year event. The Company has applied the Australian Prudential Regulation Authority ("APRA") stress scenario to calculate this exposure. The Company holds sufficient capital resources to meet this obligation were it to occur.

(7) Statutory Accounting

The Company prepares financial statements for its regulator, APRA, in accordance with the accounting practices prescribed by the regulator, which is a comprehensive basis of accounting other than U.S. GAAP.

The balance sheet is recorded under Australian accounting standards and a prudential adjustment is made to derive the APRA capital base, being the tax-effected difference between the insurance liabilities under APRA and Australian accounting standards.

The Company's APRA net income after tax, capital base, minimum capital requirement and solvency ratio were as follows as of and for the year ended December 31:

<u>(U.S. dollar amounts in thousands)</u>	<u>2011</u>
APRA net income after tax	<u>\$ 259,132</u>
APRA capital base	\$2,414,629
APRA minimum capital requirement	\$1,544,272
APRA solvency ratio	1.56

The above APRA net income after tax, capital base, minimum capital requirement and solvency ratio are the combined amounts of Genworth Financial Mortgage Insurance Pty Limited and its wholly-owned subsidiary, Genworth Financial Mortgage Indemnity Limited.

Under the prudential regulation framework in Australia, mortgage insurers are required to establish a catastrophic risk charge defined as a 1 in 250 year event. APRA specifies a formula to quantify this event. The Company is required to maintain adequate capital to fund this charge, in addition to normal insurance liabilities, by ensuring that its capital base exceeds its minimum capital requirement at all times.

As of March 31, 2012, the APRA solvency ratio was 1.54.

In February 2012, the Company amended the reinsurance agreements with Genworth Mortgage Insurance Corporation ("Genworth Mortgage") and Brookfield Life Assurance Company Limited ("Brookfield"), affiliated companies, whereby Brookfield assumed obligations from Genworth Mortgage with respect to an additional layer of private mortgage guarantee insurance. The amendment was effective January 1, 2012 and approved by the North Carolina Department of Insurance in February 2012. The Company also renewed and expanded its external reinsurance program with a group of non-affiliated reinsurers with coverage effective January 1, 2012.

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The Company's ability to pay dividends to Genworth Financial Mortgage Insurance Holdings Pty Limited is allowable if the following apply:

- the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- it is fair and reasonable to the Company's shareholders as a whole; and
- it does not materially prejudice the Company's ability to pay its creditors.

Any dividend above four preceding quarters' earnings requires prior approval from APRA. In addition, any dividend payment must result in the Company continuing to meet the APRA minimum capital requirement.

(9) Planned Minority Initial Public Offering

In April 2012, Genworth, the Company's ultimate parent, announced a new timeframe for completing its planned minority initial public offering ("IPO") of up to 40% of its Australian mortgage insurance business, which was originally expected to occur during 2012. Genworth is now targeting completion of the IPO in early 2013, subject to market conditions, valuation considerations including business performance, and regulatory approvals.