

# Genworth Financial, Inc. Investor Presentation

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August 2020



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## **Basis of presentation**

This presentation includes certain historical financial information of the U.S. Mortgage Insurance (“USMI”) segment of Genworth. In 2019, Genworth sold Genworth MI Canada (“MIC”), including GMI’s ownership interest in MIC. Certain financial measures presented for periods prior to 2019, such as USMI stockholder’s equity, may not be comparable to the same measures for 2019 and beyond as a result of the impact of the sale of MIC and related portion of GMI’s ownership of MIC, which was previously reported separately in the MIC segment. USMI’s portion of cash proceeds, amounting to approximately \$0.5 billion, was retained in USMI following the sale. Similarly, for the foregoing reasons, the USMI segment information for these periods will not be equivalent to financial information prepared for USMI on a standalone basis.

# Today's Agenda

- **Genworth Mortgage Insurance Overview**
- **Key Credit Highlights**
- **Concluding Remarks**
- **Appendix**

# Today's Presenters



**Dan Sheehan**, Chief Financial Officer and Chief Investment Officer, Genworth Financial

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- Named Chief Financial Officer in August 2020; served as Chief Investment Officer since April 2012, managing Genworth's \$73bn investment portfolio
- Prior to assuming role as Chief Investment Officer, served in a variety of positions within Genworth's investments department after joining the company in 1997, including SVP of Genworth Asset Management from 2009 – 2012
- MBA in Finance from Babson College; BA in economics from Harvard University



**Rohit Gupta**, Chief Executive Officer, Genworth Mortgage Insurance

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- Prior to assuming his current position in March 2013, served as Chief Commercial Officer and SVP, Intelligence and Strategy of GMICO; previously spent time at FedEx in Strategic Marketing. He has more than 15 years of experience in the financial services industry
- MBA in Finance from University of Illinois at Urbana Champaign; BS in Computer Science and Technology from Indian Institute of Technology



**Dean Mitchell**, Chief Financial Officer & Senior Vice President, Genworth Mortgage Insurance

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- Prior to assuming his current position in March 2013, served as VP, Capital Management for GMICO; previously served as Treasurer for Reichhold, Inc., a global chemical manufacturer. He has more than 15 years of experience in the financial services industry
- MBA from University of North Carolina at Wilmington, BS in Business from Wake Forest University

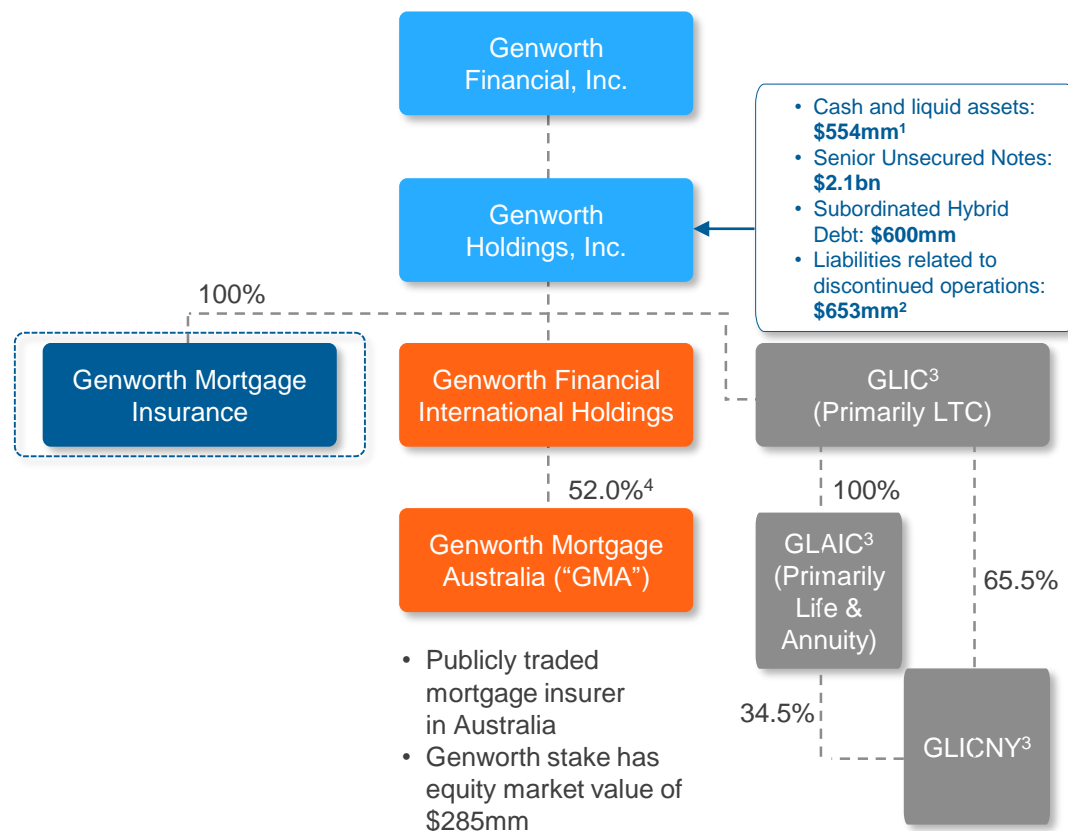




# Genworth Mortgage Insurance Overview

# Overview

- Genworth Mortgage Holdings, Inc. (“Genworth Mortgage Insurance” or “GMI”) is the holding company for a leading U.S. private mortgage insurance (“PMI”) company and is a subsidiary of Genworth Financial, Inc. (“Genworth”), a publicly-traded and diversified insurance holdings company
- GMI, through its insurance subsidiaries, plays a critical role in the U.S. housing finance system by providing credit protection to mortgage lenders and facilitating the sale of mortgages to the secondary market
- The results of GMI are reported through the U.S. Mortgage Insurance (“USMI”) segment of Genworth
  - As of Q2’20 LTM, the USMI segment generated \$442mm of Adjusted Operating Income and as of Q2’20 had \$4,050mm of Stockholder’s Equity
  - GMI is currently unlevered, has a clean balance sheet with limited long-term liabilities and owns 100% of the equity interests of its insurance subsidiaries



Source: Company filings as of MRQ

Note: Simplified and illustrative chart not inclusive of all Genworth entities. Genworth Holdings, Inc. Debt and Cash as of 30-Jun-2020.

<sup>1</sup> Cash shown includes restricted cash and assets. <sup>2</sup> Relates to contingent liability recorded in connection with settlement agreement reached with AXA involving the sale of Genworth's former lifestyle protection insurance business. \$653mm represents the pre-tax amount of the liabilities. The after-tax amount is \$516mm at a 21% tax rate. <sup>3</sup> Genworth Life Insurance Company ("GLIC"), Genworth Life Insurance and Annuity Company ("GLAIC"), Genworth Life Insurance Company of New York ("GLICNY"). <sup>4</sup> Reflects Genworth ownership and market equity value as of 22-Jul-2020. Based upon AUD / USD FX rate of 0.71. Genworth's shares in Genworth Mortgage Insurance Australia Limited (ASX: GMA) are held by Genworth Financial International Holdings, LLC and Genworth Holdings, Inc., as partners of the Genworth Australian General Partnership.

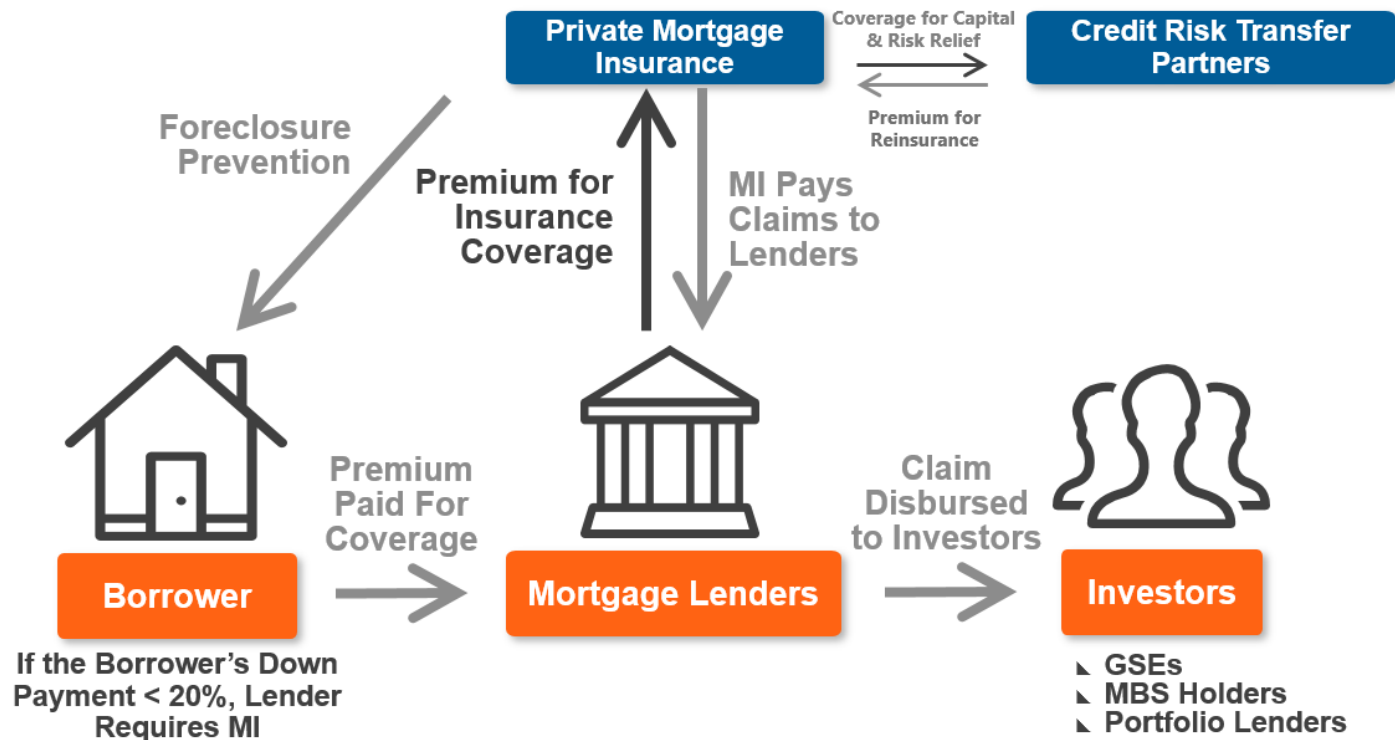
# Genworth Financial Update

- ▶ **Genworth entered into a merger agreement in October of 2016 whereby affiliates of China Oceanwide Holdings Group Co., Ltd. (“Oceanwide”) would acquire Genworth for \$5.43 per share, or approximately \$2.7bn**
  - ▶ In addition to the purchase price, pending the closing of the transaction, Oceanwide will contribute \$1.5bn to Genworth over time
- ▶ **The transaction has not yet closed due to a lengthy approval process and COVID-19**
  - ▶ The COVID-19 pandemic has resulted in delays in finalizing Oceanwide’s funding plan, which is the primary factor currently holding up the transaction closing
- ▶ **On June 30, 2020, Genworth and Oceanwide extended the deadline for the merger agreement to a date not later than September 30, 2020<sup>1</sup>**
  - ▶ The extension allows Oceanwide additional time to finalize the financing of the transaction
- ▶ **Under the recent extension, Genworth can undertake various actions to address near-term liabilities, including:**
  - ▶ A debt financing
  - ▶ Taking the necessary steps to prepare for a potential GMI IPO
- ▶ **Genworth’s management team remains focused on closing the Oceanwide transaction while also retaining flexibility to address near-term liquidity needs and maximizing shareholder value**

<sup>1</sup> The extension provides for termination rights as of August 31, 2020 in the event that Oceanwide fails to provide evidence of the availability of \$1.0bn of funds to finance the transaction.

# How Private Mortgage Insurance Works

- PMI protects lenders and ultimately mortgage investors against borrower default
- The charters of selected Government Sponsored Enterprises (“GSEs”) require credit enhancement, such as mortgage insurance, on loans they acquire with >80% loan-to-value (“LTV”) ratios
- In normal markets, PMI represents 10-20% of the origination market
- PMI in the United States is predominantly a monthly premium, borrower paid product





# Genworth Mortgage Insurance – A Snapshot

## Business Overview

- ▶ Leading private mortgage insurance company founded in 1981
  - ▶ 2019 market share of 16%<sup>1</sup>
  - ▶ H1 2020 market share of 19%<sup>1</sup>
- ▶ Successful transition from a “Buy and Hold” strategy to an “Acquire, Distribute and Manage” approach
- ▶ Strong balance sheet and well capitalized to manage through macroeconomic uncertainty
- ▶ Objective to create value for all stakeholders by driving profitable market share, maintaining strong capital levels and earnings profile and delivering attractive risk-adjusted returns

## Key Financial Metrics<sup>2</sup>

**\$207bn**

Insurance In-Force (“IIF”)

**\$50bn**

Risk In-Force (“RIF”)

**\$442mm**

LTM<sup>3</sup> Adjusted  
Operating Income

**\$83bn**

LTM New  
Insurance Written (“NIW”)

**143%**

PMIERS Ratio<sup>4</sup>

**\$4,050mm**

GAAP Equity

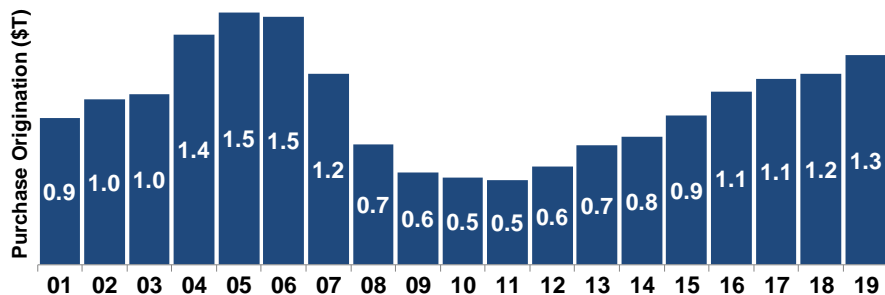
<sup>1</sup> Market share calculated as USMI NIW divided by total NIW from other U.S. private mortgage insurers (Essent, MGIC, NMI, Radian, and Arch) as reported in SEC filings for each company at YE 2019 and Q2 2020, respectively. <sup>2</sup> As of Q2 2020. <sup>3</sup> Last 12 months. <sup>4</sup> Private mortgage insurance capital requirements governed by the GSEs’ PMIERS (Private Mortgage Insurer Eligibility Requirements).

# Differentiated Mortgage Insurance Offering

- ▶ Long-tenured relationships with a large and diverse customer base
- ▶ Best-in-class customer service and differentiated customer offerings
- ▶ Proprietary pricing engine allows for granular approach to pricing and portfolio construction
- ▶ Excellence in underwriting and risk and capital management
- ▶ Cycle tested leadership team with average of 14 years mortgage insurance experience

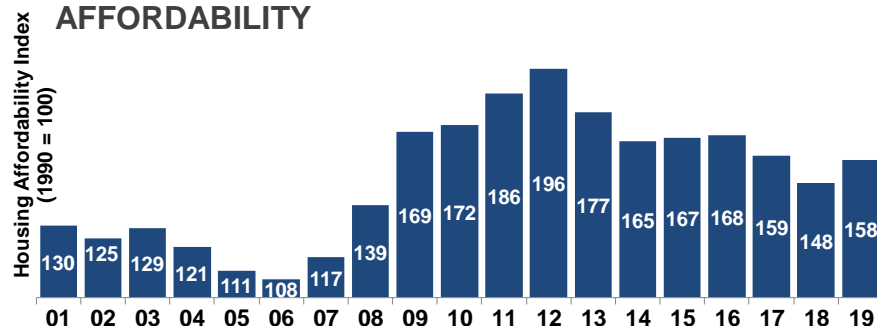
# Strong Fundamentals for Mortgage Insurance Production

## FIRST-TIME HOMEBUYERS



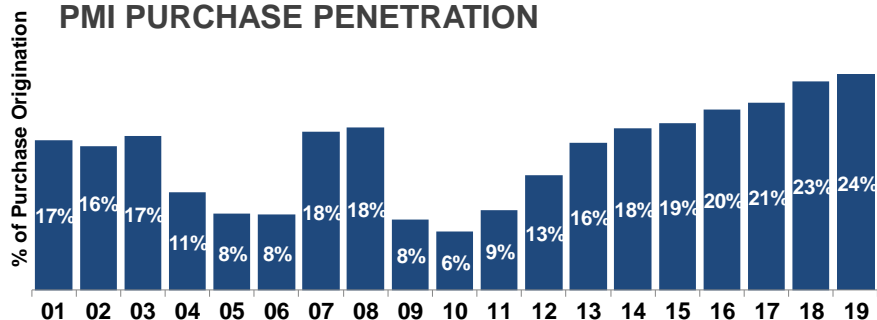
- Purchase origination has grown every year since 2011 and is over 2X the level in 2011.
- Over 11mm families became first-time homebuyers from 2014 to 2019, accounting for most of the growth in home sales and purchase origination during this period.
- 80% of first-time homebuyers rely on low down payment mortgages.

## AFFORDABILITY



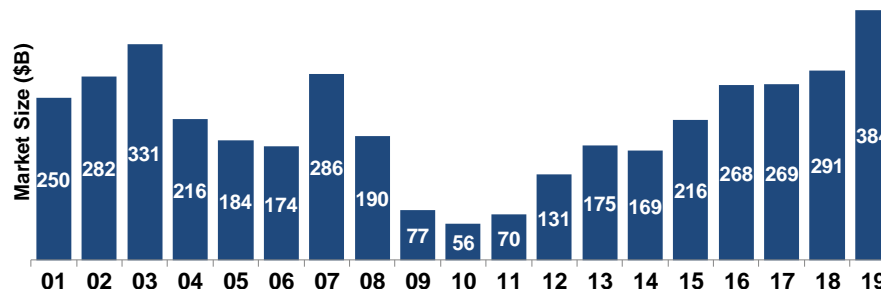
- The low interest rate environment has made financing very attractive for potential homebuyers, offsetting rising home prices.
- Supply of affordable homes from homebuilders will likely increase to address the first-time homebuyer market, raising the availability of affordable houses.

## PMI PURCHASE PENETRATION



- The PMI industry has captured an increasing share of the purchase origination market through its exposure to high credit quality first-time homebuyers.
- Private mortgage insurance helped to finance more first-time homebuyers in 2018 and 2019 than the Federal Housing Administration ("FHA").

## PMI MARKET



- The PMI industry has managed to expand NIW production every year but one year since 2010 and is over 6X the level in 2010.
- Over \$1T (10%) of outstanding mortgage debt had private mortgage insurance in 2019.

Source: Genworth Mortgage Insurance, National Association of Realtors, Inside Mortgage Finance  
Note: Data presented as of YE2019.

# Managing COVID-19 Business Implications

- **Swift operational response to protect employees and minimize disruption**
  - Transitioned to work from home in March with vast majority of employees still working remotely
  - Serving lenders with no change in quality throughout the COVID-19 pandemic
- **Extensive stress-testing and scenario planning activated**
  - Monitoring function set up to continuously evaluate as new information becomes available
  - Wide range of scenarios assessed for impact to earnings and capital
- **Closely monitoring impacts of capital and regulatory response**
  - Government relief and GSE forbearance programs have caused rise in delinquencies
  - PMIERS capital relief resulting in 70% reduction in delinquency asset factor
- **Effective risk management and pricing in place**
  - Robust Credit Risk Transfer (“CRT”) program to protect balance sheet
  - \$1.3bn PMIERS in excess capital as of Q2 2020 up from \$1.1bn as of YE 2019
  - Over 90% of RIF covered by CRT as of Q2 2020; placed additional XOL cover in June for 2009 - 2019 vintages
  - Continually revising pricing to align return profile with current risk appetite



# Key Credit Highlights



# Key Credit Highlights

**A** Strong Historical Operating Performance, Driven by Favorable Underwriting Results

**B** Strong Capitalization, Driven by Prudently Managed Balance Sheet

**C** Large In-Force Book of Business Expected to Drive Top Line Results

**D** Resilient Underlying Credit Quality on Mortgage Insurance Portfolio

**E** Comprehensive Risk Management Philosophy & Recent Performance

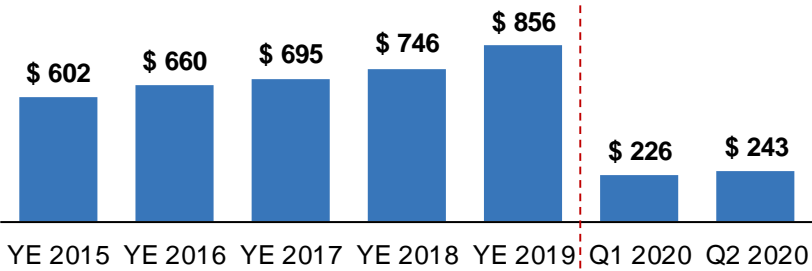
**F** Dynamic Leadership Team with Through-The-Cycle Experience

# Strong Historical Operating Performance, Driven by Favorable Underwriting Results

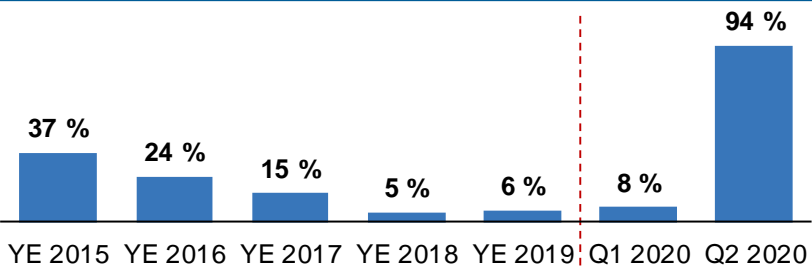
(\$ in millions)

- Large in-force book of business continuing to drive sizeable premiums
  - Growth in premiums driven by strong lender relationships while maintaining rigorous underwriting standards
- Losses have trended downwards over time driven by prudent underwriting providing further tailwinds to bottom line growth
  - Elevated in Q2 due to COVID
- Adjusted operating income showing rapid growth due to premium growth, favorable losses and expense efficiencies as the company reaps benefits of scale

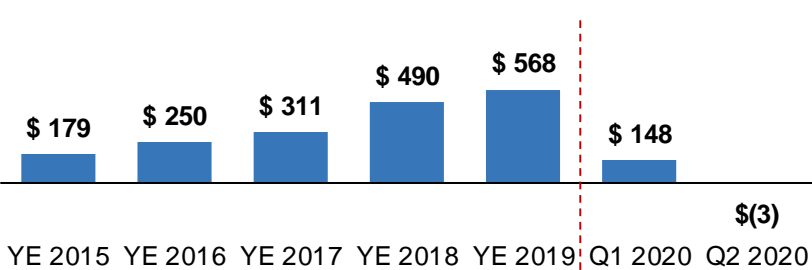
Premiums



Loss Ratio



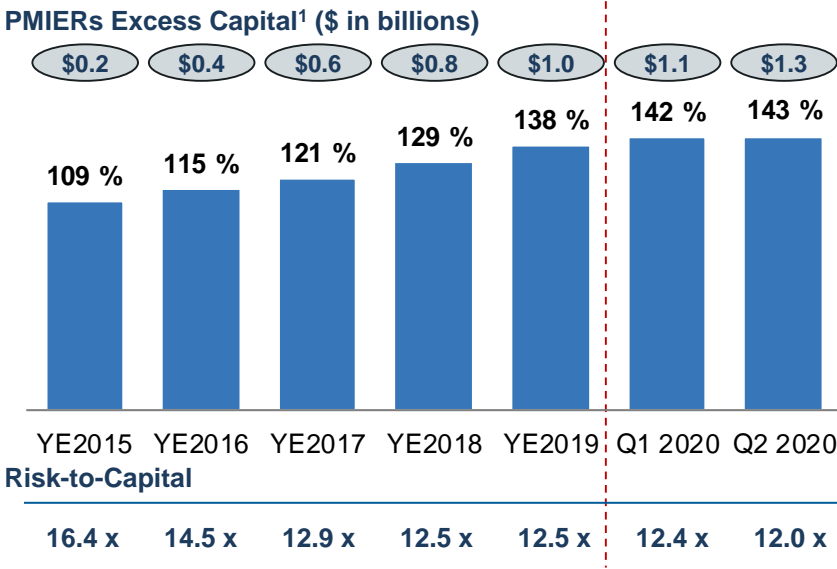
Adjusted Operating Income



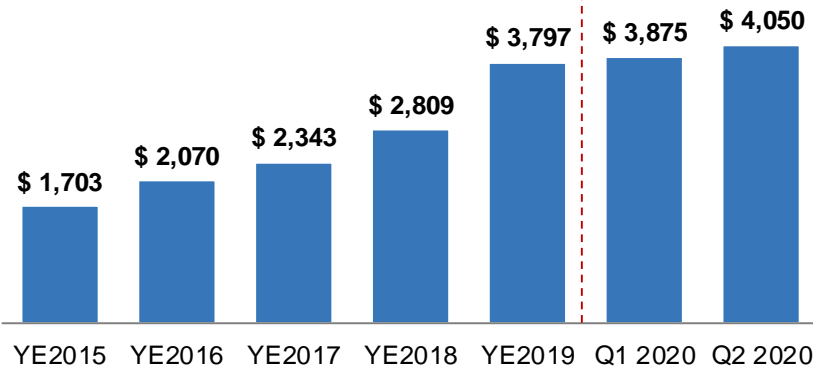
# Strong Capitalization, Driven by Prudently Managed Balance Sheet

- PMI capital requirements governed by PMIERS
  - Q2 2020 PMIERS ratio of 143%
- Risk-to-capital represents another metric GMI monitors and is an important item for rating agencies and regulators
  - Max risk-to-capital allowable by NC DOI<sup>2</sup> is 25:1 and 18:1 by GSEs
  - GMICO<sup>3</sup> currently at 12.0:1
- GMICO<sup>3</sup> paid a dividend to GMI of \$250mm in 2019

## PMIERS Capitalization



## Stockholder's Equity



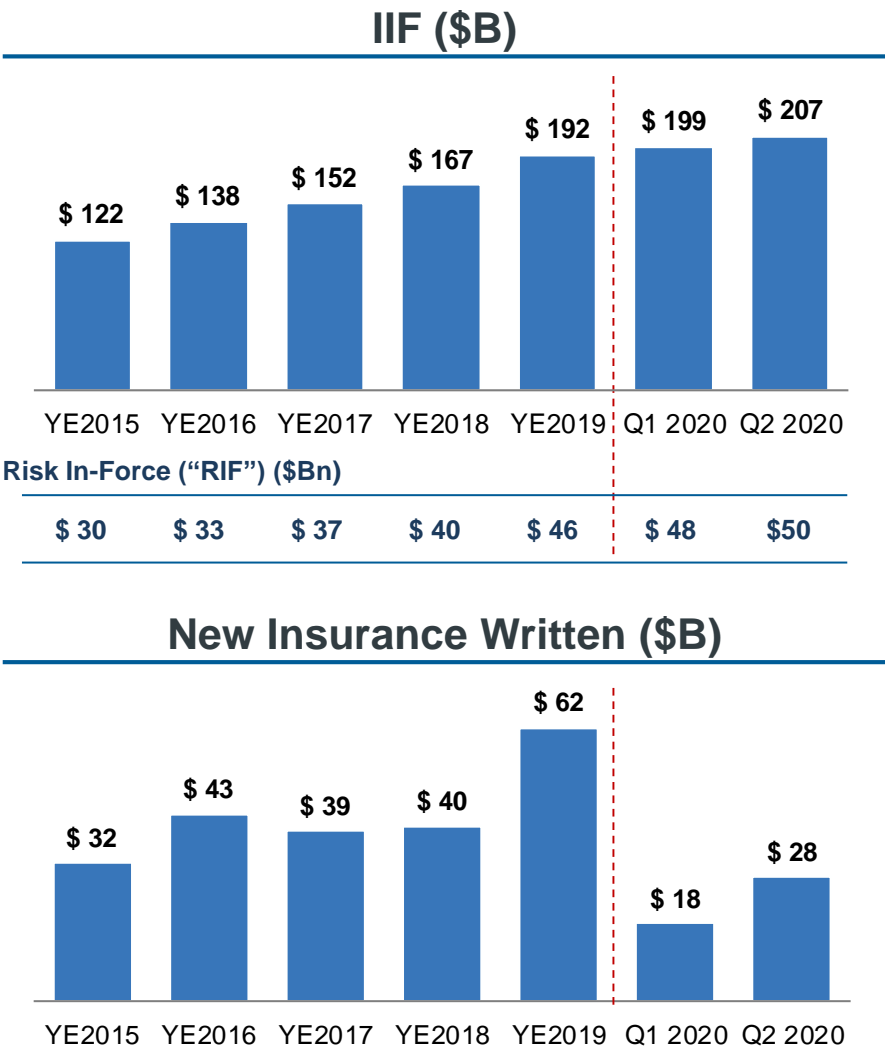
<sup>1</sup> Excess relative to 100% PMIERS capital requirement

<sup>2</sup> North Carolina Department of Insurance

<sup>3</sup> Genworth Mortgage Insurance Corporation, USMI's primary legal statutory entity

# Large In-Force Book of Business Expected to Drive Top Line Results

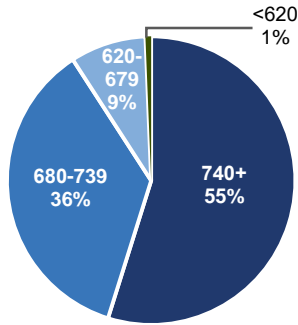
- Large IIF and RIF book seeing meaningful growth in recent years
- IIF and RIF CAGR of 12% since 2015
- Genworth Mortgage Insurance market share has been between 16-19% for the last six quarters
- Favorable housing market backdrop with strong credit quality and underlying NIW CAGR of 18% in from 2015 - 2019
- Refi market conditions driving strong NIW in Q2, with highest refi origination level since 2003



# Strong Underlying Credit Quality of Portfolio

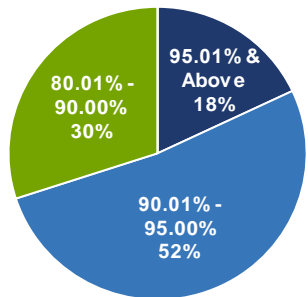
GMI Q2 2020 RIF

FICO Score<sup>2</sup>



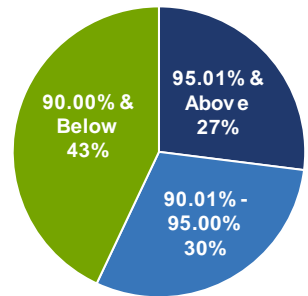
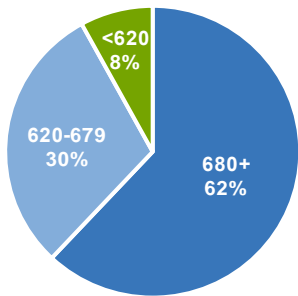
Over 90% of borrowers with FICO scores greater than 680 at the time of loan origination

LTV<sup>2</sup>



Distribution shift out of highest risk bucket into lower LTV supported by portfolio shaped to risk/return profile in current market conditions

2007 Industry Average<sup>1</sup>



# of High-Risk Layers<sup>3</sup>

% RIF Q2'20

LTV > 95% FICO < 680	0	1.0%
	1	1.2%
	2	0.3%
	3+	0.0%
	<b>Total</b>	<b>2.5%</b>

# of High-Risk Layers<sup>3</sup>

% NIW Q2'20

LTV > 95% FICO < 680	0	0.1%
	1	0.0%
	2	0.0%
	3+	0.0%
	<b>Total</b>	<b>0.1%</b>

In higher risk loans (>95% LTV, <680 FICO), the in-force book has minimal "high-risk layers"

**We Have Built A Well Performing Portfolio Of IIF Through Sound Credit Policy, Strong Underwriting And Risk Based Pricing**

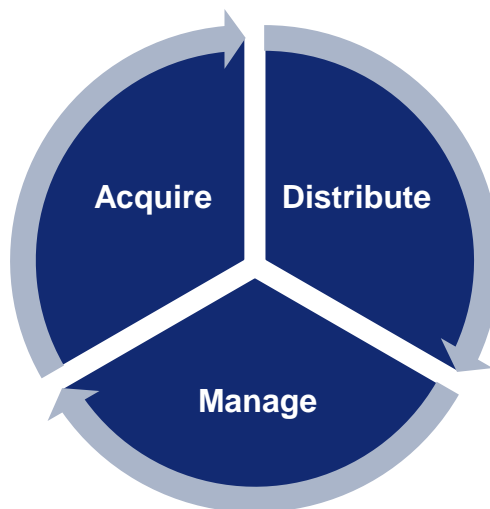
<sup>1</sup> Represents the average breakdown of primary RIF for Q4 2007 between Radian, MGIC, Genworth U.S. M.I., and Triad Guaranty. FICO breakdown excludes Triad Guaranty for FICO 620-679 and 680+ due to lack of comparable disclosure. As reported in SEC filings for each Company for Q4 2007. <sup>2</sup> Metrics derived from underlying characteristics at the time the loan was originated. Borrowers without a FICO score included in the 620 – 680 category, and represented 4% as of 2Q 2020. <sup>3</sup> High-risk layers defined as loans that have a single borrower, debt-to-income > 45%, cash-out refinances or investor-owned properties.



# Comprehensive Risk Management Philosophy

## Three-Pronged Approach to Insurance Risk Management

- Identify appropriate risk appetite and set risk parameters / limits
- Thorough underwriting to apply credit policy to incoming loans
- Price underlying risk adequately to achieve targeted returns



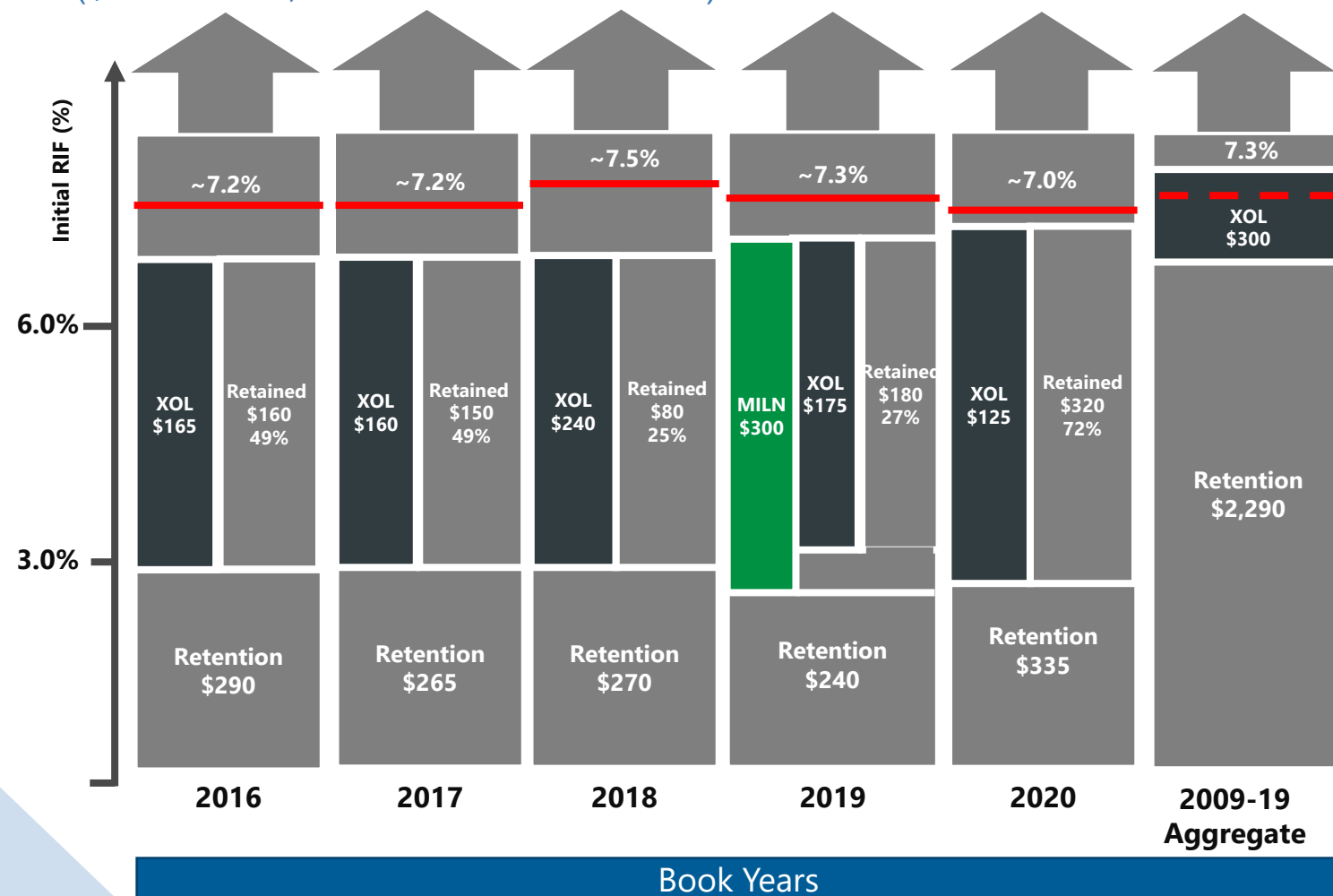
- CRT allows for reduced portfolio volatility
- Structured in XOL form, either via traditional reinsurance or mortgage insurance linked notes ("MILN")

- Conduct comprehensive stress testing on the portfolio to further inform appetite
- Continuous auditing of underwriting processes and controls

# GMI CRT Program

(\$ in millions, unless stated otherwise)

GMI Retention  
 MILN  
 Reinsurer  
 PMIERS Requirement at Inception



- GMI starts ceding losses to reinsurers just under 3% of RIF for each vintage year, up to ~7%... Corresponds to ~30% - 70% lifetime book year loss ratio
- Structure has historically utilized excess of loss reinsurance, with the 2019 vintage year utilizing GMI's inaugural MILN transaction
- GMI retains co-participation across the various reinsurance arrangements
- Vintage years prior to 2016 were previously reinsured but have now been commuted
- 2009-19 treaty provides additional PMIERS coverage as COVID delinquencies emerge

Figures shown as of June 30, 2020

**Reinsurance Program Designed for Risk Relief and PMIERS Credit**

# Illustrative Delinquency Sensitivity Analysis

Delinquent loans are subject to non-performing risk charges under PMIERS. For loans with 2-3 missed payments, charges are 55% of the risk in force, with higher charges for policies that continue to miss payments. PMIERS provides for a 70% reduction to the non-performing risk charges for loans impacted by a COVID-19 hardship for specified periods.

**Key Assumptions:** All incremental delinquent loans are 2-3 missed payments, COVID-19 related, reflect the same average RIF per loan, mix of vintage years / risk characteristics as performing portfolio as of June 30, 2020

	Required Assets as % of RIF	Notes
Average Performing Loan on 30-Jun-2020	6.7%	
Delinquent 2-3 Missed Payments	16.5%	70% reduction to 55% charge
Incremental Assets Required Upon Becoming Delinquent	9.8%	

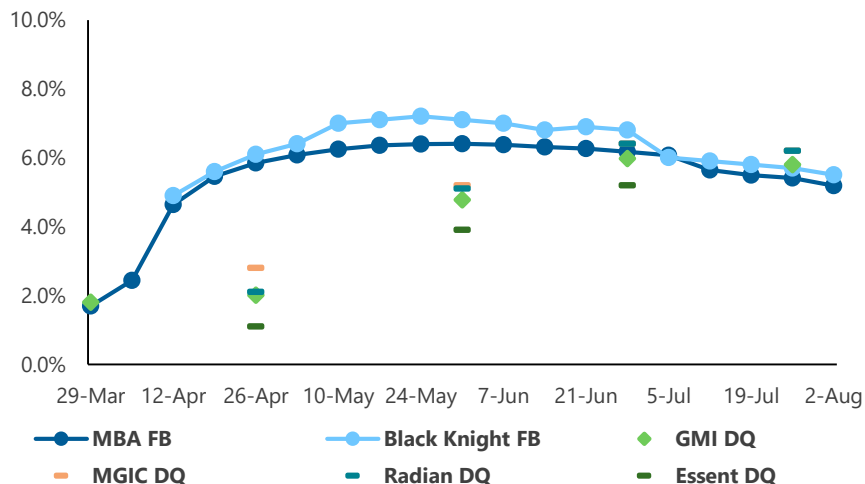
Average Net RIF Per Performing Loan	Incremental Required Assets as % of RIF	Incremental Required Assets Per Loan	PMIERS Excess <sup>1</sup>	Implied Count of Incremental Delinquencies <sup>1</sup>	# of Delinquent Loans at 6/30/20	Pro Forma # of Delinquent Loans at 6/30/20 <sup>1</sup>	Delinquency Rate at 6/30/20	Pro Forma Delinquency Rate Required to Exhaust 6/30/20 PMIERS Excess <sup>1</sup>
\$55.3k	9.8%	\$5.4k	\$1.275B	236k	54k	290k	5.98%	32.0%
<div> <div>Normal incremental capital charge on delinquent loans of 48% reduced to 9.8%</div> <div>Implied Incremental Delinquencies Calculated by Dividing PMIERS Excess Capital by Total Incremental Required Assets Per Loan</div> <div>Ability to withstand over 5x increase in delinquency rate given current PMIERS capital relief</div> </div>								

<sup>1</sup> Excess based upon 100% PMIERS requirement. Our 2009-19 Aggregate XOL provides ~\$180mm PMIERS benefit at 6/30/20 with ~\$120mm potential remaining benefit, which would cover 310k delinquencies (256k incremental), or a 35% pro forma delinquency rate.

**Genworth Mortgage Insurance Can Withstand Meaningful Delinquencies And Remain PMIERS Compliant**

# Forbearance and Delinquency Trends

## Industry Forbearance<sup>1</sup>



- Forbearance leading indicator of delinquency development
- GMI July forbearance rate of 7.4%, down from 7.7% as of Q2
- High percentage of borrowers still making payments
  - As of the end of July, 61% reported as delinquent for GMI
- Servicer responsiveness and processes influence forbearance rates

## GMI Delinquencies (Counts)

	Mar 20	Apr 20	May 20	Jun 20	Jul 20
<b>Total Delinquencies</b>	<b>15,417</b>	<b>17,772</b>	<b>42,448</b>	<b>53,587</b>	<b>52,484</b>
Delq Rate	1.78%	2.03%	4.79%	5.98%	5.81%
% in Forbearance	5%	11%	66%	79%	77%
<b>New Delinquencies</b>	<b>2,456</b>	<b>4,942</b>	<b>27,496</b>	<b>15,935</b>	<b>6,823</b>

- Delinquencies reported when borrower fails to make two consecutive payments
- New delinquencies peaked in May; declining in June and July
- 87% of new delinquencies in Q2 and 76% of new delinquencies in July in forbearance
- Delinquencies currently at lower range of scenario estimates

Source: Company filings. <sup>1</sup> Forbearance data weekly per the Mortgage Bankers Association / Black Knight; data for MGIC, Radian and Essent as reported monthly.

# Q2 Performance Summary Update

(\$ in millions, unless stated otherwise)

Key Items	Q1 2020	Q2 2020	Δ
NIW (\$ in billions)	\$ 18	\$ 28	58.7 %
Loss Ratio	8 %	94 %	+86 pts
Adjusted Operating Income	148	(3)	(102.0)%
PMIERS Capital Ratio	142 %	143 %	+1 pts
PMIERS Excess Capital	\$ 1,171	\$ 1,275	8.9 %

- Significant NIW growth due highest refi levels since 2003, driven by low rate environment
- COVID delinquencies driving losses of \$228mm
  - 48,557 new delinquencies; 87% in forbearance
- Total capitalization metrics improved quarter-over-quarter
- GSEs desire for Genworth to strengthen its financial profile or for GMICO to gain greater independence, access to capital and improve ratings
- We expect to reach agreement with the GSEs to maintain PMIERS at 115% of current requirements and for any near-term debt financing at GMI to be limited to \$750mm, with a \$300mm holdback to pay interest and support capital

**Despite challenging back-drop, GMI performance was break-even in Q2, with PMIERS capital metrics remaining strong**



# Dynamic Leadership Team with Through-the-Cycle Experience



**Rohit Gupta**

President  
Chief Executive Officer  
22 years  
MI: 16 years



**Dean Mitchell**

Sr. Vice President  
Chief Financial Officer  
26 years  
MI: 15 years



**Duane Duncan**

Sr. Vice President  
Government & Industry Affairs  
30 years  
MI: 10 years



**Michael Derstine**

Sr. Vice President  
Chief Risk Officer  
28 years  
MI: 18 years



**Evan Stolove**

Sr. Vice President  
General Counsel  
27 years  
MI: 4 years



**Anthony Guarino**

Sr. Vice President  
Pricing & Credit Policy  
29 years  
MI: 20 years



**Susan Sullivan**

Sr. Vice President  
Human Resources  
28 years  
MI: 11 years



**Matt Young**

Sr. Vice President  
Sales  
30 years  
MI: 11 years



**George Reichert**

Sr. Vice President  
Information Technology  
34 years  
MI: 7 years



**Brian Gould**

Sr. Vice President  
Operations  
26 years  
MI: 21 years



**Kevin McMahon**

Sr. Vice President  
Customer Solutions  
25 years  
MI: 17 years

**Management Team Members Held Meaningful Roles During the Global Financial Crisis, Gaining Critical Experience**





## Concluding Remarks

# Summary Financial Metrics

(\$ in millions, unless stated otherwise)

	2015	2016	2017	2018	2019	Q1 2020	Q2 2020
<b>Income Statement Items</b>							
Premiums	\$ 602	\$ 660	\$ 695	\$ 746	\$ 856	\$ 226	\$ 243
Net Investment Income	58	63	73	93	117	33	31
Adjusted Operating Income	179	250	311	490	568	148	(3)
<b>Balance Sheet Items</b>							
Total Assets	\$ 2,899	\$ 2,674	\$ 3,273	\$ 3,583	\$ 4,504	\$ 4,542	\$ 4,944
Shareholders' Equity	1,703	2,070	2,343	2,809	3,797	3,875	4,050
<b>NIW / In-Force (\$ in billions)</b>							
New Insurance Written	\$ 32	\$ 43	\$ 39	\$ 40	\$ 62	\$ 18	\$ 28
Insurance In-Force	122	138	152	167	192	199	207
Risk In-Force	30	33	37	40	46	48	50
<b>Operating Metrics</b>							
Loss Ratio	37 %	24 %	15 %	5 %	6 %	8 %	94 %
Adjusted Operating ROE	11 %	13 %	14 %	19 %	17 %	15 %	0 %
<b>Capital Metrics</b>							
PMIERs Capital Ratio	109 %	115 %	121 %	129 %	138 %	142 %	143 %
PMIERs Excess Capital	\$ 200	\$ 350	\$ 550	\$ 750	\$ 1,000	\$ 1,171	\$ 1,275
Dividends to USMI HoldCo	0	0	0	50	250	0	0

# Key Takeaways

- ▶ **GMI has been operating from a position of strength, with solid operating performance in recent years**
- ▶ **Balance sheet remains strong and can withstand meaningful delinquency developments**
- ▶ **Forbearance data showing stabilization in macro conditions**
- ▶ **Effectively managing through COVID-19**
- ▶ **Experienced leadership team has proven its ability to deliver through the cycle**

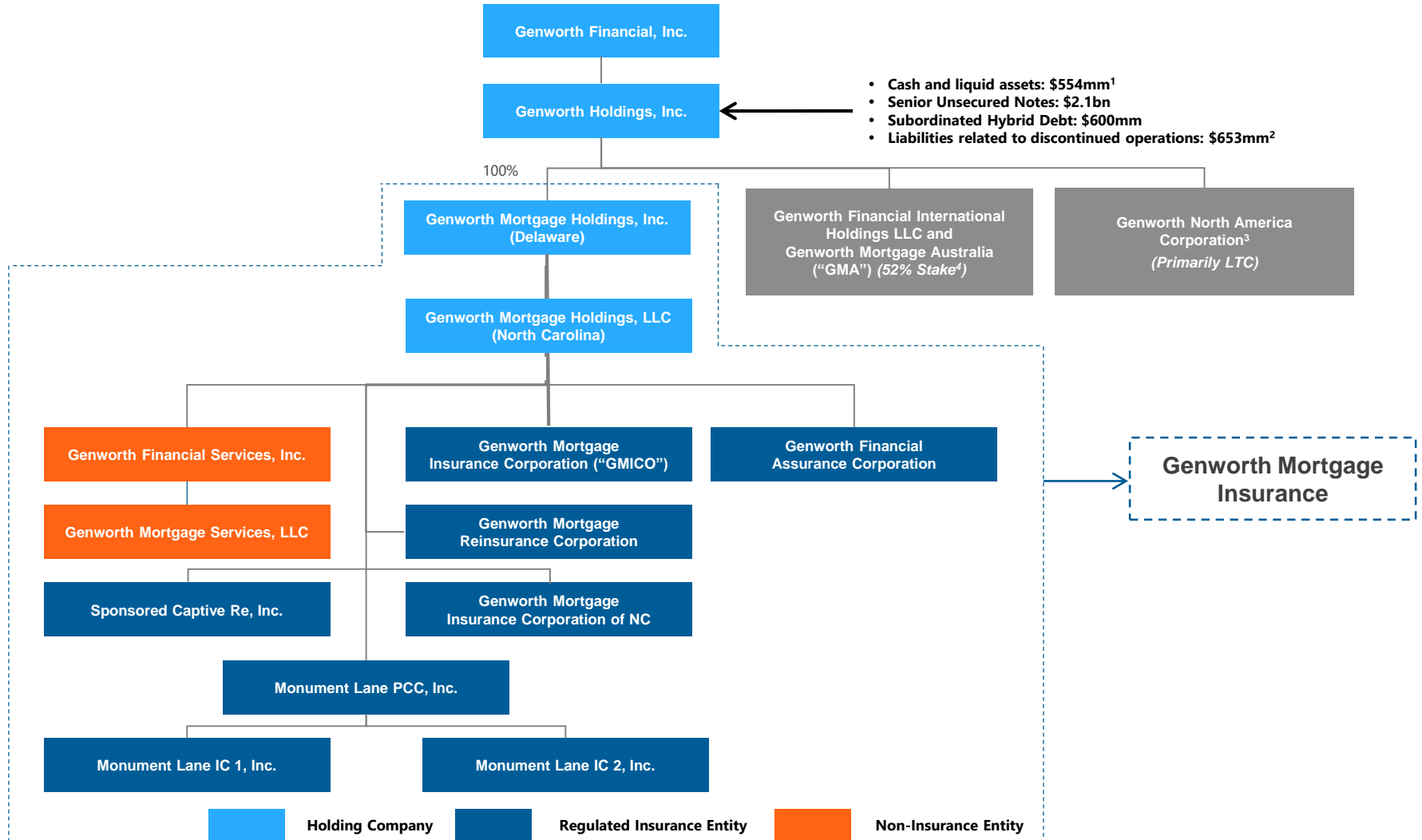




# Appendix



# Genworth Legal Entity Organization Structure



Source: Company filings as of MRQ. Note: Simplified and illustrative chart not inclusive of all Genworth entities. Genworth Holdings, Inc. Debt and Cash as of 30-Jun-2020. <sup>1</sup> Cash shown includes restricted cash and assets. <sup>2</sup> Relates to contingent liability recorded in connection with settlement agreement reached with AXA involving the sale of Genworth's former lifestyle protection insurance business. \$653mm represents the pre-tax amount of the liabilities. The after-tax amount is \$516mm at a 21% tax rate. <sup>3</sup> Genworth Life Insurance Company ("GLIC"), Genworth Life Insurance and Annuity Company ("GLAIC"), Genworth Life Insurance Company of New York ("GLICNY"). <sup>4</sup> Reflects Genworth ownership percentage. Genworth's shares in Genworth Mortgage Insurance Australia Limited (ASX: GMA) are held by Genworth Financial International Holdings, LLC and Genworth Holdings, Inc., as partners of the Genworth Australian General Partnership.