

GENWORTH FINANCIAL INC
Form 424B4
March 24, 2005
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-123156

PROSPECTUS

80,500,000 Shares

Class A Common Stock

GE Financial Assurance Holdings, Inc., the selling stockholder and an indirect subsidiary of General Electric Company, is offering all the 80,500,000 shares of Class A Common Stock to be sold in this offering. We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.

Our shares of Class A Common Stock are listed on the New York Stock Exchange under the symbol GNW. The last reported sale price of our Class A Common Stock on the New York Stock Exchange on March 23, 2005 was \$26.75 per share.

We have agreed to repurchase directly from the selling stockholder, concurrently with the closing of this offering, \$500 million of our shares of Class B Common Stock at a price per share equal to the net proceeds per share that the selling stockholder will receive from the underwriters in this offering. The closing of the repurchase will be contingent on the closing of this offering.

Investing in our Class A Common Stock involves risks. See Risk Factors beginning on page 14.

PRICE \$26.50 A SHARE

Per Share Total

Price to public	\$ 26.500	\$ 2,133,250,000
Underwriting discounts and commissions	\$ 0.689	\$ 55,464,500
Proceeds to selling stockholder	\$ 25.811	\$ 2,077,785,500

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A Common Stock to purchasers on March 30, 2005.

Morgan Stanley

Global Coordinator

JPMorgan

Merrill Lynch & Co.

Citigroup

**Banc of America Securities LLC
Deutsche Bank Securities
Lehman Brothers**

**Credit Suisse First Boston
Goldman, Sachs & Co.
UBS Investment Bank**

**ABN AMRO Rothschild LLC
Capital Management Group Securities
Legg Mason Wood Walker**

**BB&T Capital Markets
Fox-Pitt, Kelton
Ramirez & Co., Inc.**

**Blaylock & Partners, L.P.
Keefe, Bruyette & Woods
Raymond James**

Incorporated

The Williams Capital Group, L.P.

March 23, 2005

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in Risk Factors before making an investment decision. In this prospectus, unless the context otherwise requires, Genworth, we, us, and our refer to Genworth Financial, Inc. and its subsidiaries and include the operations of the businesses acquired from GE Financial Assurance Holdings, Inc. and other GE subsidiaries in connection with our corporate reorganization.

Genworth Financial, Inc.

We are a leading insurance company in the U.S., with an expanding international presence, serving the life and lifestyle protection, retirement income, investment and mortgage insurance needs of more than 15 million customers. We have leadership positions in key products that we expect will benefit from a number of significant demographic, governmental and market trends. We distribute our products and services through an extensive and diversified distribution network that includes financial intermediaries, independent producers and dedicated sales specialists. We conduct operations in 22 countries and have approximately 6,150 employees. We have the following three operating segments:

Protection. We offer U.S. customers life insurance, long-term care insurance and, primarily for companies with fewer than 1,000 employees, group life and health insurance. In Europe, we offer payment protection insurance, which helps consumers meet their payment obligations in the event of illness, involuntary unemployment, disability or death. In 2004, we were the leading provider of individual long-term care insurance and a leading provider of term life insurance in the U.S., according to LIMRA International (in each case based upon annualized first-year premiums). We believe we are a leading provider of term life insurance through brokerage general agencies in the U.S. and that this channel is the largest and fastest-growing distribution channel for term life insurance. Our leadership in long-term care insurance is based upon 30 years of product underwriting and claims experience. This experience has enabled us to build and benefit from what we believe is the largest actuarial database in the long-term care insurance industry. For the year ended December 31, 2004, our Protection segment had pro forma segment net earnings of \$527 million.

Retirement Income and Investments. We offer U.S. customers fixed and variable deferred annuities, income annuities, variable life insurance, asset management, and specialized products, including guaranteed investment contracts, or GICs, funding agreements and structured settlements. We are an established provider of these products. In 2004, according to VARDS, we were the largest provider of variable income annuities in the U.S., and according to LIMRA International, we were the second-largest provider of fixed income annuities in the U.S. (in each case based upon total premiums and deposits). For the year ended December 31, 2004, our Retirement Income and Investments segment had pro forma segment net earnings of \$148 million.

Mortgage Insurance. In the U.S., Canada, Australia, New Zealand and Europe, we offer mortgage insurance products that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages. These products generally also aid financial institutions in managing their capital efficiently by reducing the capital required for low-down-payment mortgages. According to *Inside*

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Mortgage Finance, in 2004, we were the fifth-largest provider of mortgage insurance in the U.S. (based upon new insurance written). We also believe we are the largest provider of private mortgage insurance outside the U.S. (based upon flow new insurance written), with leading mortgage insurance operations in Canada, Australia and the U.K. and a growing presence in Continental Europe. The net premiums written in our international mortgage insurance business have increased by a compound annual growth rate of 45% for the three years ended December 31, 2004. For the year ended December 31, 2004, our Mortgage Insurance segment had pro forma segment net earnings of \$426 million.

We also have a Corporate and Other segment which consists primarily of unallocated corporate income and expenses (including amounts incurred in settlement of class action lawsuits), the results of several small, non-core businesses that are managed outside our operating segments, most of our interest and other financing expenses and net realized investment gains (losses). For the year ended December 31, 2004, our Corporate and Other segment had pro forma segment net earnings of \$29 million.

We had \$12.9 billion of total stockholders' interest and \$103.9 billion of total assets as of December 31, 2004. For the year ended December 31, 2004, on a pro forma basis, our revenues were \$10.2 billion and our net earnings from continuing operations were \$1.1 billion. Our principal life insurance companies have financial strength ratings of AA- (Very Strong) from S&P, Aa3 (Excellent) from Moody's, A+ (Superior) from A.M. Best and AA- (Very Strong) from Fitch, and our rated mortgage insurance companies have financial strength ratings of AA (Very Strong) from S&P, Aa2 (Excellent) from Moody's and AA (Very Strong) from Fitch. The AA and AA- ratings are the third- and fourth-highest of S&P's 21 ratings categories, respectively. The Aa2 and Aa3 ratings are the third- and fourth-highest of Moody's 21 ratings categories, respectively. The A+ rating is the second-highest of A.M. Best's 15 ratings categories. The AA and AA- ratings are the third- and fourth-highest of Fitch's 24 ratings categories, respectively.

Until our initial public offering, or IPO, in May 2004, our business was wholly owned by General Electric Company, or GE. GE currently owns approximately 70% of our outstanding common stock. After the completion of this offering and the stock repurchase, described below under "The Stock Repurchase," GE will own approximately 52% of our outstanding common stock. GE has indicated that it expects, subject to market conditions, to reduce its ownership over the next two years as we transition to full independence.

Market Environment and Opportunities

We believe we are well positioned to benefit from a number of significant demographic, governmental and market trends, including the following:

Aging U.S. population with growing retirement income needs, resulting from large numbers of baby boomers approaching retirement and significant increases in life expectancy that heighten the risk that individuals will outlive their retirement savings.

Growing lifestyle protection gap, with individuals lacking sufficient resources, including insurance coverage, to support their desired lifestyle due to declining individual savings rates, rising healthcare and nursing care costs and a shifting of the burden for funding protection needs from governments and employers to individuals.

Increasing opportunities for mortgage insurance internationally and in the U.S., resulting from increasing homeownership levels, expansion of low-down payment mortgage loan offerings, the potential for favorable legislative and regulatory policies, and expansion of secondary mortgage markets that require credit enhancements.

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Competitive Strengths

We believe the following competitive strengths will enable us to capitalize on opportunities in our targeted markets:

Leading positions in diversified targeted markets. We believe our leading positions in our targeted markets, including individual long-term care insurance, term life insurance and income annuities in the U.S., payment protection insurance in Europe and international mortgage insurance, provide us with the scale necessary to compete effectively in these markets as they grow. We also believe our strong presence in multiple markets provides balance to our business, reduces our exposure to adverse economic trends affecting any one market and provides stable cash flow to fund growth opportunities.

Product innovation and breadth. We offer a breadth of products that meet the needs of consumers throughout the various stages of their lives, thereby positioning us to benefit from the current trend among distributors to reduce the number of insurers with whom they maintain relationships. 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.

Extensive, multi-channel distribution network. We have extensive distribution reach and offer consumers access to our products through a broad network of financial intermediaries, independent producers and dedicated sales specialists. In addition, we maintain strong relationships with leading distributors by providing a high level of specialized and differentiated distribution support and through technology solutions that support the distributors' sales efforts.

Technology-enhanced, scalable, low-cost operating platform. We have pursued an aggressive approach to cost-management and continuous process improvement. We also have developed sophisticated technology tools that enhance performance by automating key processes and reducing response times and process variations. In addition, we have centralized our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. Through an outsourcing provider that is 40% owned by GE, we also have a substantial team of professionals in India who provide us with a variety of support services.

Disciplined risk management with strong compliance practices. Risk management and regulatory compliance are critical parts of our business, and we are recognized in the insurance industry for our excellence in these areas. We employ comprehensive risk management processes in virtually every aspect of our operations, including product development, underwriting, investment management, asset-liability management and technology development programs. We have an experienced group of more than 150 professionals dedicated to supporting these efforts.

Strong balance sheet and high-quality investment portfolio. We believe our size, ratings and capital strength provide us with a significant competitive advantage. We have a diversified, high-quality investment portfolio with \$65.7 billion of invested assets, as of December 31, 2004. Approximately 94% of our fixed maturities had ratings equivalent to investment-grade, and less than 1% of our total investment portfolio consisted of equity securities, as of December 31, 2004.

Experienced and deep management team. Our senior management team has an average of approximately 18 years of experience in the financial services industry. We have an established track record for successfully developing managerial talent at all levels of our organization and have instilled a performance- and execution-oriented corporate culture.

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Growth Strategies

Our objective is to increase operating earnings and enhance returns on equity. We intend to pursue this objective by focusing on the following strategies:

Capitalize on attractive growth trends in three key markets. We have positioned our product portfolio and distribution relationships to capitalize on the attractive growth prospects in three key markets:

Retirement income, where we believe growth will be driven by a variety of favorable demographic trends and the approximately \$4.4 trillion of invested financial assets in the U.S. that are held by people within 10 years of retirement and \$3.3 trillion of invested assets that are held by individuals who are under age 70 and consider themselves retired, in each case according to SRI Consulting Business Intelligence. Our products are designed to enable the growing retired population to convert their accumulated assets into reliable retirement income throughout their retirement years.

Protection, particularly long-term care insurance and payment protection insurance. In long-term care insurance, we believe growth will be driven by the increasing protection needs of the expanding aging population and a shifting of the burden for funding these needs from governments and employers to individuals. For example, according to the American Society on Aging and Conning Research & Consulting, approximately 70% of individuals in the U.S. age 65 and older will require long-term care at some time in their lives, but in 2003, less than 10% of the individuals in the U.S. age 55 and older had long-term care insurance. In our payment protection insurance business, we believe market growth will result from the increase in consumer borrowing across Europe, the expansion of the European Union and reduced unemployment benefits in the European markets where we offer our products.

International mortgage insurance, where we continue to see attractive growth opportunities with the expansion of homeownership and low-down-payment loans. The net premiums written in our international mortgage insurance business have increased at a compound annual growth rate of 45% for the three years ended December 31, 2004.

Further strengthen and extend our distribution channels. We intend to further strengthen and extend our distribution channels by continuing to differentiate ourselves in areas where we believe we have distinct competitive advantages. These areas include:

Product and service innovations, as illustrated by new product introductions, such as the introduction of our Income Distribution Series of guaranteed income products and riders, our private mortgage insurance products in the European market, and our service innovations, which include programs such as our policyholder wellness initiatives in our long-term care insurance business and our automated underwriting platform in our mortgage insurance business.

Collaborative approach to key distributors, which includes our joint business improvement program and our tailored approach to our sales intermediaries addressing their unique service needs, which have benefited our distributors and helped strengthen our relationships with them.

Technology initiatives, such as our proprietary underwriting system, which has made it easier for distributors to do business with us, improved our term life and long-term care insurance underwriting speed and accuracy, and lowered our operating costs.

Enhance returns on capital and increase margins. We believe we will be able to enhance our returns on capital and increase our margins through the following means:

Adding new business layers at targeted returns and optimizing mix. We have introduced revised pricing and new products in a number of business lines, which we believe will increase our expected returns. In U.S. mortgage insurance, we are targeting market segments in which we can generate

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new business at higher returns and limiting our growth from segments that have lower returns. We have exited or placed in run-off certain product lines in blocks of business with low returns, including, for example, our older, fixed GICs, facility-only long-term care insurance policies and certain payment protection insurance contracts, mostly in the U.K. As these blocks decrease, we expect to release capital over time to deploy to higher-return products and/or businesses.

Capital efficiency and management. We continually seek opportunities to use our capital more efficiently, while maintaining our ratings and strong capital position. We have developed a capital markets solution to fund additional statutory reserves on our term life insurance policies related to Regulation XXX, and we are working to develop similar structures for other product lines, including universal life insurance. In addition, we intend to complement our core growth strategy through selective acquisitions designed to enhance product and distribution capabilities and returns, the breadth of our product portfolio, or our distribution reach. We have successfully completed the acquisition and integration of 13 key businesses since 1993. In addition to pursuing opportunities for core growth and accretive acquisitions, we also will consider making share repurchases and increasing dividends on our common stock.

Investment income enhancements. The yield on our investment portfolio is affected by the practice, prior to our separation from GE, of realizing investment gains through the sale of appreciated securities and other assets during a period of historically low interest rates. This strategy had been pursued to offset impairments in our investment portfolio, fund consolidations and restructurings in our business and provide current income. As an independent public company, our investment strategy is to optimize investment income without relying on realized investment gains. Although the interest-rate environment since our IPO in mid-2004 has been challenging, we expect over time that the yield on our investment portfolio will stabilize, with the potential for yield increases in a rising interest rate environment. We also will seek to improve our investment yield by continuously evaluating our asset class mix, pursuing additional investment classes and accepting additional credit risk when we believe that it is prudent to do so.

Ongoing operating cost reductions and efficiencies. We continually focus on reducing our cost base while maintaining strong service levels for our customers. We expect to accomplish this goal in each of our operating units through a wide range of cost management disciplines, including consolidating operations, using low-cost operating locations, reducing supplier costs, leveraging process improvement efforts, forming focused teams to identify opportunities for cost reductions and investing in new technology, particularly for web-based, digital end-to-end processes.

Formation of Genworth Financial, Inc.

We were incorporated in Delaware on October 23, 2003 in preparation for our corporate reorganization and IPO, which was completed on May 28, 2004. In connection with the IPO, we acquired substantially all of the assets and liabilities of GE Financial Assurance Holdings, Inc., or GEFAHI. GEFAHI is an indirect subsidiary of GE, and prior to the IPO was a holding company for a group of companies that provide life insurance, long-term care insurance, group life and health insurance, annuities and other investment products and U.S. mortgage insurance. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting.

In consideration for the assets and liabilities that we acquired from GEFAHI, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, \$600 million of our 6.00% Equity Units (the *Equity Units*), \$100 million of our 5.25% Series A Cumulative Preferred Stock (the *Series A Preferred Stock*), which is mandatorily redeemable, a \$2.4 billion short-term note, and a \$550 million contingent non-interest-bearing note (the *Contingent Note*). The liabilities we assumed included ¥60 billion aggregate principal amount of 1.6%

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notes due 2011 that had been issued by GEFAHI (the Yen Notes), ¥3 billion of which GEFAHI owned and transferred to us (and were subsequently retired). We refer to the transactions described above as our corporate reorganization.

GEFAHI sold 146.44 million shares of our Class A Common Stock (which were converted from an equal number of shares of Class B Common Stock) in the IPO. GEFAHI also sold all the Equity Units and the Series A Preferred Stock in public offerings concurrent with the IPO. Upon completion of the IPO, we repaid the \$2.4 billion short-term note with borrowings under a short-term credit facility, and we repaid those borrowings shortly thereafter with proceeds from our offerings of \$1.9 billion of senior notes and \$500 million of commercial paper. We repaid the Contingent Note in December 2004.

In connection with our corporate reorganization and the IPO, we entered into a number of arrangements with GE governing our separation from GE and a variety of transition and other matters, including our relationship with GE while GE remains a significant stockholder in our company. These arrangements include several significant reinsurance transactions with Union Fidelity Life Insurance Company, or UFLIC, an indirect subsidiary of GE. As part of these transactions, effective as of January 1, 2004, we ceded to UFLIC all of our in-force structured settlement contracts, substantially all of our variable annuity contracts, and a block of long-term care insurance policies that we reinsured in 2000 from The Travelers Insurance Company, which we refer to in this prospectus as Travelers.

Risks Relating to Our Company

As part of your evaluation of our company, you should consider the risks associated with our business, our separation from GE and this offering. These risks include:

Risks relating to our businesses, including interest rate fluctuations, downturns and volatility in equity markets, defaults in portfolio securities, downgrades in our financial strength and credit ratings, insufficiency of reserves, legal constraints on dividend distributions by subsidiaries, illiquidity of investments, competition, inability to attract or retain independent sales intermediaries and dedicated sales specialists, defaults by counterparties, foreign exchange rate fluctuations, regulatory restrictions on our operations and changes in applicable laws and regulations, legal or regulatory actions or investigations, political or economic instability and the threat of terrorism and terrorist acts;

Risks relating to our Protection and Retirement Income and Investments segments, including unexpected changes in mortality, morbidity and unemployment rates, accelerated amortization of deferred acquisition costs and present value of future profits, goodwill impairments, medical advances such as genetic mapping research, unexpected changes in persistency rates, increases in statutory reserve requirements, the failure of demand for long-term care insurance to increase as we expect and changes in tax and securities laws;

Risks relating to our Mortgage Insurance segment, including the influence of Fannie Mae, Freddie Mac and a small number of large mortgage lenders and investors, increased regulatory scrutiny of Fannie Mae and Freddie Mac resulting in possible regulatory changes, decreases in the volume of high loan-to-value mortgage originations, increases in mortgage insurance cancellations, increases in the use of simultaneous second mortgages and other alternatives to private mortgage insurance and reductions by lenders in the level of coverage they select, unexpected increases in mortgage insurance default rates or severity of defaults, deterioration in economic conditions, insufficiency of premium rates to compensate us for risks associated with mortgage loans bearing high loan-to-value ratios, increases in the use of captive reinsurance in the mortgage insurance market, changes in the demand for mortgage insurance that could arise as a result of efforts of large mortgage investors, legal or regulatory actions or investigations under applicable laws and regulations, including the Real Estate Settlement Practices Act and the Federal Fair Credit Reporting Act, potential liabilities in connection with contract underwriting services and growth in the European mortgage insurance market that is lower than we expect;

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Risks relating to our separation from GE, including the loss of benefits associated with GE's brand and reputation, our need to establish our new Genworth brand identity quickly and effectively, the lack of comparability between our financial information for periods before the IPO and for periods after the IPO, the possibility that we will not be able to replace services previously provided by GE on terms that are at least as favorable, the possibility that in certain circumstances we will be obligated to make payments to GE under our tax matters agreement even if our corresponding tax savings either are delayed or never materialize, the possibility that in the event of a change in control of our company we would have insufficient funds to meet accelerated obligations under the tax matters agreement, GE's control over certain tax matters that could have an impact on us, potential conflicts of interest with GE and GE's engaging in the same type of business as we do in the future; and

Risks relating to this offering, including future sales of stock by GE that may depress the price of our shares, fluctuations in our share price and regulatory and statutory requirements and contractual arrangements that may delay or prevent a takeover of our business.

For a further discussion of these and other risks, see Risk Factors.

The Stock Repurchase

We have agreed to repurchase directly from the selling stockholder, concurrently with the closing of this offering, \$500 million of our shares of Class B Common Stock at a price per share equal to the net proceeds per share that the selling stockholder will receive from the underwriters in this offering. The closing of the repurchase will be contingent on the closing of this offering. See Arrangements between GE and Our Company Relationship with GE Stock Purchase Agreement.

After completion of this offering and the stock repurchase, GE will own approximately 52% of our outstanding common stock.

Additional Information

Our principal executive offices are located at 6620 West Broad Street, Richmond, Virginia 23230. Our telephone number at that address is (804) 281-6000. We maintain a variety of websites to communicate with our distributors, customers and investors and to provide information about various insurance and investment products to the general public. None of the information on our websites is part of this prospectus.

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The Offering

Class A Common Stock offered by the selling stockholder 80,500,000 shares

Common stock to be outstanding immediately after this offering and the stock repurchase

Class A 227,019,954 shares

Class B 243,216,559 shares (excluding 19,371,586 shares held in treasury)

Common stock to be held by the selling stockholder immediately after this offering and the stock repurchase

Class B 243,216,559 shares

Voting rights One vote per share for all matters on which stockholders are entitled to vote, except:

holders of Class A Common Stock will have the right separately to elect and remove a specified number of directors, and

holders of Class B Common Stock will have the right (1) separately to elect and remove a specified number of directors, and (2) to approve significant corporate actions, including mergers, acquisitions, dispositions and incurrences of debt.

The specific number of directors that holders of the Class A Common Stock and the Class B Common Stock will have separate rights to elect and remove will vary, depending upon the percentage of our common stock owned by GE.

See Description of Capital Stock Common Stock.

Use of proceeds We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.

Dividend policy We currently pay quarterly cash dividends on our common stock at a rate of \$0.065 per share. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our

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financial condition, earnings, capital requirements of our subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant.

New York Stock Exchange symbol

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol GNW.

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Summary Historical and Pro Forma Financial Information

The following table sets forth summary historical and pro forma financial information. You should read this information in conjunction with the information under Selected Historical and Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, \$600 million of our Equity Units, \$100 million of our Series A Preferred Stock, a \$2.4 billion note and the \$550 million Contingent Note. Shortly after the completion of the IPO, we refinanced the \$2.4 billion note with the proceeds of \$1.9 billion of senior notes and \$500 million of commercial paper.

We have prepared our financial statements as if Genworth had been in existence throughout all relevant periods. Our historical financial statements include all businesses that were owned by GEFAHI, including those that were not transferred to us, as well as the other insurance businesses that we acquired from other GE subsidiaries, each in connection with our corporate reorganization.

The unaudited pro forma financial information set forth below reflects our historical financial information, as adjusted to give effect to the transactions described under Selected Historical and Pro Forma Financial Information, as if each had occurred as of January 1, 2004. The following transactions are reflected in the pro forma financial information:

the removal of certain businesses of GEFAHI that were not transferred to us in connection with our corporate reorganization;

the reinsurance transactions with UFLIC, including a capital contribution of \$1.836 billion to UFLIC;

the issuance of equity and debt securities to GEFAHI in exchange for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization;

the issuance and sale of \$1.9 billion aggregate principal amount of senior notes and \$500 million of commercial paper; and

the other adjustments described in the notes to the unaudited pro forma financial information under Selected Historical and Pro Forma Financial Information.

The unaudited pro forma financial information below is based upon available information and assumptions that we believe are reasonable. The unaudited pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had the transactions described above occurred as of January 1, 2004. The unaudited pro forma financial information also should not be considered representative of our future results of operations.

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In addition to the pro forma adjustments to our historical statement of earnings, various other factors will have an effect on our financial condition and results of operations, including those discussed under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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(Amounts in millions, except per share amounts)	Historical					Pro forma
	Years ended December 31,					Year ended
	2004	2003(1)	2002	2001	2000(2)	December 31, 2004
Statement of Earnings Information						
Revenues:						
Premiums	\$ 6,559	\$ 6,707	\$ 6,107	\$ 6,012	\$ 5,233	\$ 6,388
Net investment income	3,648	4,051	3,979	3,895	3,678	3,160
Net realized investment gains	26	10	204	201	262	23
Policy fees and other income	824	915	939	993	1,053	664
Total revenues	11,057	11,683	11,229	11,101	10,226	10,235
Benefits and expenses:						
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,474	3,586	4,340
Interest credited	1,432	1,624	1,645	1,620	1,456	1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	1,916	1,808	1,823	1,813	1,657
Amortization of deferred acquisition costs and intangibles(3)	1,154	1,351	1,221	1,237	1,394	1,052
Interest expense	217	140	124	126	126	243
Total benefits and expenses	9,419	10,301	9,438	9,280	8,375	8,611
Earnings from continuing operations before income taxes	1,638	1,382	1,791	1,821	1,851	1,624
Provision for income taxes	493	413	411	590	576	494
Net earnings from continuing operations	\$ 1,145	\$ 969	\$ 1,380	\$ 1,231	\$ 1,275	\$ 1,130(4)
Net earnings from continuing operations per share(5):						
Basic	\$ 2.34	\$ 1.98	\$ 2.82			\$ 2.31
Diluted	\$ 2.33	\$ 1.98	\$ 2.82			\$ 2.30
Shares outstanding(5):						
Basic	489.5	489.5	489.5			489.5
Diluted	490.5	489.5	489.5			490.5
Selected Segment Information						
Total revenues:						
Protection	\$ 6,064	\$ 6,143	\$ 5,605	\$ 5,443	\$ 4,917	\$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	3,721	3,137	2,891
Mortgage Insurance	1,090	982	946	965	895	1,090
Affinity(6)	218	566	588	687	817	
Corporate and Other	324	189	334	285	460	319
Total	\$ 11,057	\$ 11,683	\$ 11,229	\$ 11,101	\$ 10,226	\$ 10,235
Net earnings (loss) from continuing operations:						

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Protection	\$ 528	\$ 487	\$ 554	\$ 538	\$ 492	\$ 527
Retirement Income and Investments	153	151	186	215	250	148
Mortgage Insurance	426	369	451	428	414	426
Affinity(6)	(14)	16	(3)	24	(13)	
Corporate and Other	52	(54)	192	26	132	29
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 1,145	\$ 969	\$ 1,380	\$ 1,231	\$ 1,275	\$ 1,130
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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(Dollar amounts in millions)	December 31,				
	2004	2003(1)	2002	2001	2000(2)
Statement of Financial Position Information					
Total investments	\$ 65,747	\$ 78,693	\$ 72,080	\$ 62,977	\$ 54,978
All other assets	38,131	24,738	45,277	41,021	44,598
Total assets	\$ 103,878	\$ 103,431	\$ 117,357	\$ 103,998	\$ 99,576
Policyholder liabilities	\$ 69,262	\$ 66,545	\$ 63,195	\$ 55,900	\$ 48,291
Non-recourse funding obligations(7)	900	600			
Short-term borrowings	559	2,239	1,850	1,752	2,258
Long-term borrowings	2,442	529	472	622	175
All other liabilities	17,849	17,718	35,088	31,559	35,865
Total liabilities	\$ 91,012	\$ 87,631	\$ 100,605	\$ 89,833	\$ 86,589
Accumulated nonowner changes in stockholders' interest	\$ 1,609	\$ 1,672	\$ 835	\$ (664)	\$ (424)
Total stockholders' interest	12,866	15,800	16,752	14,165	12,987
U.S. Statutory Information(8)					
Statutory capital and surplus	6,439	7,021	7,207	7,940	7,119
Asset valuation reserve	427	413	390	477	497

- (1) On August 29, 2003, we sold our Japanese life insurance and domestic auto and homeowners' insurance businesses for aggregate cash proceeds of approximately \$2.1 billion, consisting of \$1.6 billion paid to us and \$0.5 billion paid to other GE affiliates, plus pre-closing dividends. See note 5 to our financial statements, included elsewhere in this prospectus.
- (2) During 2000, we consummated three significant business combinations:
- In July 2000, we reinsured 90% of Travelers' long-term care insurance portfolio and acquired certain related assets for \$411 million;
 - In April 2000, we acquired Phoenix American Life Insurance Company for \$284 million; and
 - Effective March 2000, we acquired the insurance policies and related assets of Toho Mutual Life Insurance Company. Our Japanese life insurance business assumed \$21.6 billion of policyholder liabilities and \$0.3 billion of accounts payable and accrued expenses and acquired \$20.3 billion in cash, investments and other tangible assets through this transaction. We sold this business on August 29, 2003, and its results have been presented as discontinued operations.
- (3) As of January 1, 2002, we adopted Statement of Financial Accounting Standards 142, *Goodwill and Other Intangible Assets*, and, in accordance with its provisions, discontinued amortization of goodwill. Goodwill amortization was \$84 million and \$70 million for the years ended December 31, 2001 and 2000, respectively, excluding goodwill amortization included in discontinued operations.
- (4) Pro forma net operating earnings for the year ended December 31, 2004 were \$1,044 million. We define pro forma net operating earnings as pro forma net earnings from continuing operations, excluding pro forma after-tax net realized investment gains and losses (which can fluctuate significantly from period to period), changes in accounting principles and non-recurring, infrequent or unusual items. There were no non-recurring, infrequent or unusual items excluded from pro forma net operating earnings for the year ended December 31, 2004, other than an IPO-related net tax benefit and a gain related to our waiver of contractual rights under an outsourcing services agreement with GE's global business processing operation, 60% of which was sold in the fourth quarter of 2004. We believe that analysis of pro forma net operating earnings enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. However, pro forma net operating earnings should not be viewed as a substitute for GAAP net earnings. In addition, our definition of pro forma net operating earnings may differ from the definitions used by other companies. The following table provides a reconciliation of pro forma net operating earnings (as defined above) to pro forma net earnings from continuing operations:

(Dollar amounts in millions)	Year ended December 31, 2004
Pro forma net earnings from continuing operations	\$ 1,130
Pro forma net realized (gains) on investments, net of taxes	(15)

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Net tax benefit related to initial public offering	(46)
Gain on outsourcing services agreement, net of taxes	(25)
	<hr/>
Pro forma net operating earnings	\$ 1,044
	<hr/>

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- (5) Basic and diluted net earnings from continuing operations per share for the year ended December 31, 2004 are calculated by dividing the net earnings from continuing operations by 489.5 million weighted average basic shares outstanding and by 490.5 million weighted average diluted shares outstanding, respectively. Basic and diluted net earnings from continuing operations per share for the years ending December 31, 2003 and 2002 were calculated by dividing net earnings from continuing operations by 489.5 million pro forma shares outstanding. The number of shares used in our calculation of diluted earnings per share increased in 2004 due to additional shares of Class A Common Stock issuable under stock options and restricted stock units and is calculated using the treasury method.
- (6) Reflects the results of businesses that were owned by GEFAHI but were not transferred to us in connection with our corporate reorganization, including (a) the Partnership Marketing Group business, (b) an institutional asset management business, and (c) several other small businesses that were not part of our core ongoing business. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information.
- (7) For a description of the non-recourse funding obligations, see Description of Certain Indebtedness Non-recourse Funding Obligations.
- (8) Includes statutory capital and surplus and statutorily required contingency reserves held by our U.S. mortgage insurance subsidiaries. In December 2004, our U.S. mortgage insurance business released \$700 million of statutory contingency reserves and paid that amount as a dividend to the holding company of that business.

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Risk Factors

You should carefully consider the following risks before investing in our common stock. These risks could materially affect our business, results of operations or financial condition and cause the trading price of our common stock to decline. You could lose part or all of your investment.

Risks Relating to Our Businesses

Interest rate fluctuations could adversely affect our business and profitability.

Our insurance and investment products are sensitive to interest rate fluctuations and expose us to the risk that falling interest rates will reduce our spread, or the difference between the returns we earn on the investments that support our obligations under these products and the amounts that we must pay policyholders and contractholders. Because we may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and because some of them have guaranteed minimum crediting rates, declines in interest rates may adversely affect the profitability of those products. For example, interest rates declined to unusually low levels in 2002 and 2003. During this period, our net earnings from spread-based products, such as fixed and income annuities and guaranteed investment contracts, declined from \$166 million for the year ended December 31, 2002 to \$138 million for the year ended December 31, 2003. Although interest rates increased in 2004, they remain at low levels and limit our returns on our spread-based investment products.

During periods of increasing market interest rates, we may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased policy surrenders, withdrawals from life insurance policies and annuity contracts and requests for policy loans, as policyholders and contractholders shift assets into higher yielding investments. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on our financial condition and results of operations.

Our term life and long-term care insurance products also expose us to the risk of interest rate fluctuations. The pricing and expected future profitability of these products are based in part on expected investment returns. Over time, term life and long-term care insurance products generally produce positive cash flows as customers pay periodic premiums, which we invest as we receive them. Low interest rates may reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our term life and long-term care insurance products.

In our mortgage insurance business, rising interest rates generally reduce the volume of new mortgage originations, resulting in a decrease in the volume of new insurance written. The level of new mortgage originations in the U.S. decreased to \$2,810 billion for the year ended December 31, 2004 from \$3,760 billion for the year ended December 31, 2003. This resulted in decreased levels of new mortgage insurance written. We believe the decrease in mortgage originations was due to two principal factors. First, increasing interest rates in 2004 made refinancings of existing mortgages less attractive to consumers than in recent years. Second, historically low interest rates in 2002 and 2003 contributed to substantial refinancing activity, which did not recur in 2004 because many mortgages for which refinancing would otherwise have been economically attractive were already refinanced prior to 2004. Further increases in interest rates could cause the volume of mortgage originations to decline further, which would have an adverse effect on our new mortgage insurance written.

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Rising interest rates also can increase the monthly mortgage payments for insured homeowners with adjustable rate mortgages, or ARMs, which could have the effect of increasing default rates on ARM loans and thereby increasing our exposure on our mortgage insurance policies. This is particularly relevant in our non-U.S. mortgage insurance business, where ARMs are the predominant mortgage product.

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Declining interest rates increase the rate at which insured borrowers refinance their existing mortgages, thereby resulting in cancellations of the mortgage insurance covering the refinanced loans. Declining interest rates also generally are associated with home price appreciation, which may provide insured borrowers in the U.S. with the option of canceling their mortgage insurance coverage earlier than we anticipated in pricing that coverage. These cancellations could have an adverse effect on our results from our mortgage insurance business.

Interest rate fluctuations also could have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we are forced to reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed-income securities also may decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. Declining interest rates from 2002 to 2004 contributed to a decrease in our weighted average investment yield from 6.0% for the year ended December 31, 2002 to 5.8% and 5.5% for the years ended December 31, 2003 and 2004, respectively. For additional information regarding our investment portfolio, see Business Investments. For additional information regarding the sensitivity of the fixed maturities in our investment portfolio to interest rate fluctuations, see Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Sensitivity analysis.

Downturns and volatility in equity markets could adversely affect our business and profitability.

Significant downturns and volatility in equity markets could have an adverse effect on our financial condition and results of operations in two principal ways. First, market downturns and volatility may discourage purchases of separate account products, such as variable annuities and variable life insurance, that have returns linked to the performance of the equity markets and may cause some existing customers to withdraw cash values or reduce investments in those products.

Second, downturns and volatility in equity markets can have an adverse effect on the revenues and returns from our separate account and private asset management products and services. Because these products and services depend on fees related primarily to the value of assets under management, a decline in the equity markets could reduce our revenues by reducing the value of the investment assets we manage.

Defaults in our fixed-income securities portfolio may reduce our earnings.

Issuers of the fixed-income securities that we own may default on principal and interest payments. As a result of the economic downturn and recent corporate malfeasance, the number of companies defaulting on their debt obligations has increased dramatically in recent years. As of December 31, 2004 and 2003, we had fixed maturities in or near default (where the issuer has missed payment of principal or interest or entered bankruptcy) with a fair value of \$58 million and \$190 million, respectively. An economic downturn, further events of corporate malfeasance or a variety of other factors could cause declines in the value of our fixed maturities portfolio and cause our net earnings to decline.

We recognized gross capital gains of \$90 million, \$473 million and \$790 million for the years ended December 31, 2004, 2003 and 2002, respectively. We realized these capital gains in part to offset default-related losses during those periods. However, capital gains may not be available in the future, and if they are, we may elect not to recognize capital gains to offset losses.

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and adversely affect our financial condition and results of operations.

Financial strength ratings, which various ratings organizations publish as measures of an insurance company's ability to meet contractholder and policyholder obligations, are important to maintaining public

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confidence in our products, the ability to market our products and our competitive position. Our principal life insurance companies currently have financial strength ratings of AA- (Very Strong) from S&P and Fitch and Aa3 (Excellent) from Moody's. Our mortgage insurance companies currently have financial strength ratings of AA (Very Strong) from S&P and Fitch and Aa2 (Excellent) from Moody's. The AA and AA- ratings are the third- and fourth-highest of S&P's 20 ratings categories, respectively. The Aa2 and Aa3 ratings are the third- and fourth-highest of Moody's 21 ratings categories, respectively. The AA and AA- ratings are the third- and fourth-highest of Fitch's 24 ratings categories.

A downgrade in our financial strength ratings, or the announced potential for a downgrade, could have a significant adverse effect on our financial condition and results of operations in many ways, including:

reducing new sales of insurance products, annuities and other investment products;

adversely affecting our relationships with independent sales intermediaries and our dedicated sales specialists;

materially increasing the number or amount of policy surrenders and withdrawals by contractholders and policyholders;

requiring us to reduce prices for many of our products and services to remain competitive; and

adversely affecting our ability to obtain reinsurance or obtain reasonable pricing on reinsurance.

The charters of the Federal National Mortgage Corporation, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, only permit them to buy high loan-to-value mortgages that are insured by a qualified insurer, as determined by each of them. Their current rules effectively provide that they will accept mortgage insurance only from private mortgage insurers with financial strength ratings of at least AA- by S&P and Aa3 by Moody's. If our mortgage insurance companies' financial strength ratings decrease below the thresholds established by Fannie Mae and Freddie Mac, we would not be able to insure mortgages purchased by Fannie Mae or Freddie Mac. Approximately 68% of the flow loans we insured in the U.S. during the year ended December 31, 2004 were sold to either Fannie Mae or Freddie Mac. An inability to insure mortgage loans sold to Fannie Mae or Freddie Mac, or their transfer of our existing policies to an alternative mortgage insurer, would have an adverse effect on our financial condition and results of operations.

In 2003, the U.S. Office of Federal Housing Enterprise Oversight announced a risk-based capital rule that treats credit enhancements issued by private mortgage insurers with financial strength ratings of AAA more favorably than those issued by AA rated insurers. Neither Fannie Mae nor Freddie Mac has adopted policies that distinguish between AA rated and AAA rated mortgage insurers. However, if Fannie Mae or Freddie Mac adopts policies that treat AAA rated insurers more favorably than AA rated insurers, our competitive position may suffer.

In addition to the financial strength ratings of our insurance subsidiaries, ratings agencies also publish credit ratings for our company. The credit ratings have an impact on the interest rates we pay on the money we borrow. Therefore, a downgrade in our credit ratings could increase our cost of borrowing and have an adverse effect on our financial condition and results of operations.

The ratings of our insurance subsidiaries are not evaluations directed to the protection of investors in our securities.

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The ratings of our insurance subsidiaries described under Business Financial Strength Ratings reflect each rating agency's current opinion of each subsidiary's financial strength, operating performance and ability to meet obligations to policyholders and contractholders. These factors are of concern to policyholders, contractholders, agents, sales intermediaries and lenders. Ratings are not evaluations directed to the protection of investors in our securities. They are not ratings of our securities and should not be relied upon when making a decision to buy, hold or sell our securities, including the common stock offered in this offering. In addition, the standards used by rating

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agencies in determining financial strength are different from capital requirements set by state insurance regulators. We may need to take actions in response to changing standards set by any of the ratings agencies, as well as statutory capital requirements, which could cause our business and operations to suffer.

If our reserves for future policy benefits and claims are inadequate, we may be required to increase our reserve liabilities, which could adversely affect our results of operations and financial condition.

We calculate and maintain reserves for estimated future benefit payments to our policyholders and contractholders in accordance with U.S. GAAP and industry accounting practices. We release these reserves as those future obligations are extinguished. The reserves we establish necessarily reflect estimates and actuarial assumptions with regard to our future experience. These estimates and actuarial assumptions involve the exercise of significant judgment. 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, 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.

We continually monitor our reserves. If we conclude that our reserves are insufficient to cover actual or expected policy and contract benefits and claims payments, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which could adversely affect our results of operations and financial condition. For more information on how we set our reserves, see Business Reserves.

As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to pay dividends and to meet our obligations.

We act as a holding company for our insurance subsidiaries and do not have any significant operations of our own. Dividends from our subsidiaries and permitted payments to us under our tax sharing arrangements with our subsidiaries are our principal sources of cash to pay stockholder dividends and to meet our obligations. These obligations include our operating expenses, interest and principal on our borrowings and contract adjustment payments on our Equity Units. These obligations also include amounts we owe to GE under the tax matters agreement that we and GE entered into in connection with the IPO. If the cash we receive from our subsidiaries pursuant to dividend payment and tax sharing arrangements is insufficient for us to fund any of these obligations, we may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets.

The payment of dividends and other distributions to us by our insurance subsidiaries is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurance subsidiaries to us (such as a payment under a tax sharing agreement or for employee or other services) if they determine that such payment could be adverse to our policyholders or contractholders. See

Regulation. During the years ended December 31, 2004, 2003 and 2002, we received dividends from our insurance subsidiaries of \$2,111 million (\$1,244 million of which were deemed extraordinary), \$1,472 million (\$1,400 million of which were deemed extraordinary) and \$840 million (\$375 million of which were deemed extraordinary), respectively. Based on statutory results as of December 31, 2004, our subsidiaries could pay dividends of \$1,450 million to us in 2005 without obtaining regulatory approval. In addition, the ability of our insurance subsidiaries to pay dividends to us, and our ability to pay dividends to our stockholders, are subject to various conditions imposed by the rating agencies for us to maintain our ratings.

Some of our investments are relatively illiquid.

Our investments in privately placed fixed maturities, mortgage loans, policy loans, limited partnership interests and restricted investments held by securitization entities are relatively illiquid. These asset classes

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represented 31% of the carrying value of our total cash and invested assets as of December 31, 2004. If we require significant amounts of cash on short notice in excess of our normal cash requirements, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both. For example, our floating-rate funding agreements generally contain put provisions, through which the contractholder may terminate the funding agreement for any reason after giving notice within the contract's specified notice period, which is generally 90 days. As of December 31, 2004, we had an aggregate of \$2.8 billion of floating-rate funding agreements outstanding, compared to \$2.9 billion as of December 31, 2003. Of the \$2.8 billion aggregate amount outstanding as of December 31, 2004, \$1.6 billion had put option features, including \$1.5 billion with put option features of 90 days. If an unexpected number of contractholders exercise this right and we are unable to access other liquidity sources, we may have to liquidate assets quickly. Our inability to quickly dispose of illiquid investments could have an adverse effect on our financial condition and results of operations.

Intense competition could negatively affect our ability to maintain or increase our market share and profitability.

Our businesses are subject to intense competition. We believe the principal competitive factors in the sale of our products are product features, price, commission structure, marketing and distribution arrangements, brand, reputation, financial strength ratings and service.

Many other companies actively compete for sales in our protection and retirement income and investments markets, including other major insurers, banks, other financial institutions, mutual fund and money asset management firms and specialty providers. The principal direct and indirect competitors for our mortgage insurance business include other private mortgage insurers, as well as federal and state governmental and quasi-governmental agencies in the U.S., including the Federal Housing Administration, or FHA, and to a lesser degree, the Veterans Administration, or VA, Fannie Mae and Freddie Mac. We also compete in our mortgage insurance business with structured transactions in the capital markets and with other financial instruments designed to manage credit risk, such as credit default swaps and credit linked notes, with lenders who forego mortgage insurance, or self-insure, on loans held in their portfolios, and with lenders that provide mortgage reinsurance through captive mortgage reinsurance programs. In Canada and some European countries, our mortgage insurance business competes directly with government entities, which provide comparable mortgage insurance. Government entities with which we compete typically do not have the same capital requirements and do not have the same profit objectives as we do. Although private companies, such as our company, establish pricing terms for their products to achieve targeted returns, these government entities may offer products on terms designed to accomplish social or political objectives or reflect other non-economic goals.

In many of our product lines, we face competition from competitors that have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength ratings than we do. Many competitors offer similar products and use similar distribution channels. The substantial expansion of banks' and insurance companies' distribution capacities and expansion of product features in recent years have intensified pressure on margins and production levels and have increased the level of competition in many of our business lines.

We may be unable to attract and retain independent sales intermediaries and dedicated sales specialists.

We distribute our products through financial intermediaries, independent producers and dedicated sales specialists. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through these sales intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived stability and our financial strength ratings, the marketing and services we provide to them and the strength of the relationships we maintain with individuals at those firms. From time to time, due to competitive forces, we have experienced unusually high attrition in particular sales channels for specific

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products, including long-term care insurance. We believe the decline in long-term care insurance sales specialists was due in part to an intentional refocusing on more productive sales specialists and generally a more difficult environment for long-term care insurance sales. An inability to recruit productive independent sales intermediaries and dedicated sales specialists, or our inability to retain strong relationships with the individual agents at our independent sales intermediaries, could have an adverse effect on our financial condition and results of operations.

Reinsurance may not be available, affordable or adequate to protect us against losses.

As part of our overall risk and capacity management strategy, we purchase reinsurance for certain risks underwritten by our various business segments. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect our ability to write future business.

If the counterparties to our reinsurance arrangements or to the derivative instruments we use to hedge our business risks default or fail to perform, we may be exposed to risks we had sought to mitigate, which could adversely affect our financial condition and results of operations.

We use reinsurance and derivative instruments to mitigate our risks in various circumstances. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. We cannot assure you that our reinsurers will pay the reinsurance recoverable owed to us now or in the future or that they will pay these recoverables on a timely basis. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our financial condition and results of operations.

Prior to the completion of the IPO, we ceded to UFLIC, effective as of January 1, 2004, policy obligations under our structured settlement contracts, which had reserves of \$12.0 billion, and our variable annuity contracts, which had general account reserves of \$2.8 billion and separate account reserves of \$7.9 billion, in each case as of December 31, 2003. These contracts represent substantially all of our contracts that were in force as of December 31, 2003 for these products. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies that we reinsured from Travelers, which had reserves of \$1.5 billion as of December 31, 2003. UFLIC has established trust accounts for our benefit to secure its obligations under the reinsurance arrangements, and General Electric Capital Corporation, an indirect subsidiary of GE, or GE Capital, has agreed to maintain UFLIC's risk-based capital above a specified minimum level. If UFLIC becomes insolvent notwithstanding this agreement, and the amounts in the trust accounts are insufficient to pay UFLIC's obligations to us, our financial condition and results of operations could be materially adversely affected. See Arrangements between GE and our Company Reinsurance Transactions.

In addition, we use derivative instruments to hedge various business risks. We enter into a variety of derivative instruments, including options, forwards, interest rate and currency swaps and options to enter into interest rate and currency swaps with a number of counterparties. If our counterparties fail or refuse to honor their obligations under the derivative instruments, our hedges of the related risk will be ineffective. Such failure could have an adverse effect on our financial condition and results of operations.

Fluctuations in foreign currency exchange rates and international securities markets could negatively affect our profitability.

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Our international operations generate revenues denominated in local currencies. For the years ended December 31, 2004, 2003 and 2002, 19%, 18% and 14% of our revenues, respectively, and 29%, 26% and 12% of our net earnings from continuing operations, respectively, were generated by our international operations. We generally invest cash generated by our international operations in securities denominated in local currencies. As of December 31, 2004 and 2003, approximately 8% and 5%, respectively, of our invested assets were held by our

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international operations and were invested primarily in non-U.S.-denominated securities. Although investing in securities denominated in local currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations into our financial statements. We currently do not hedge this exposure, and as a result, period-to-period comparability of our results of operations is affected by fluctuations in exchange rates. For example, our net earnings for the year ended December 31, 2004, included approximately \$31 million due to the favorable impact of changes in foreign exchange rates. In addition, because we derive a significant portion of our earnings from non-U.S.-denominated revenue, our results of operations could be adversely affected to the extent the dollar value of non-U.S.-denominated revenue is reduced due to a strengthening U.S. dollar.

Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non-U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the U.S. For additional information regarding the sensitivity of our net earnings to foreign currency exchange rate fluctuations, see Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk Sensitivity analysis.

Our insurance businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

Our insurance operations are subject to a wide variety of laws and regulations. State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. Our non-U.S. insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are domiciled.

State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

licensing companies and agents to transact business;

calculating the value of assets to determine compliance with statutory requirements;

mandating certain insurance benefits;

regulating certain premium rates;

reviewing and approving policy forms;

regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;

establishing statutory capital and reserve requirements and solvency standards;

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fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

approving changes in control of insurance companies;

restricting the payment of dividends and other transactions between affiliates; and

regulating the types, amounts and valuation of investments.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have an adverse effect on our financial condition and results of operations.

In December 2004, the NAIC approved amendments to the NAIC's model Producer Licensing Act. The amendments contain new disclosure requirements for producers regarding compensation arrangements. If

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adopted, the NAIC amendments would require producers to disclose to customers, in certain circumstances, information concerning compensation arrangements. The NAIC also directed its Executive Task Force on Broker Activities to give further consideration to the development of additional requirements for recognition of a fiduciary responsibility on the part of producers, disclosure of all quotes received by a broker and disclosures relating to reinsurance arrangements between insurers and reinsurance companies affiliated with a producer. We cannot predict the effect that the NAIC's recent compensation disclosure amendments or anticipated future activities in this area, at the NAIC or state level, will have on influencing future legal actions, changes to business practices or regulatory requirements applicable to us.

Our mortgage insurance business is subject to additional laws and regulations. For a discussion of the risks associated with those laws and regulations, see [Risks Relating to Our Mortgage Insurance Business](#). Changes in regulations that affect the mortgage insurance business could affect our operations significantly and could reduce the demand for mortgage insurance.

Currently, the U.S. federal government does not regulate directly the business of insurance. However, federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include financial services regulation, securities regulation, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed. These proposals include [The State Modernization and Regulatory Transparency Act](#), which would maintain state-based regulation of insurance but would affect state regulation of certain aspects of the business of insurance including rates, agent and company licensing, and market conduct examinations. We cannot predict whether this or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws may have on our business, financial condition or results of operation.

Our international operations are subject to regulation in the relevant jurisdictions in which they operate, which in many ways is similar to that of the state regulation outlined above. See [Regulation International Regulation](#).

Many of our customers and independent sales intermediaries also operate in regulated environments. Changes in the regulations that affect their operations also may affect our business relationships with them and their ability to purchase or to distribute our products. Accordingly, these changes could have an adverse effect on our financial condition and results of operation.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance and other expenses of doing business, thus having an adverse effect on our financial condition and results of operations. For a further discussion of the regulatory framework in which we operate, see [Regulation](#).

Legal and regulatory investigations and actions are increasingly common in the insurance business and may result in financial losses and harm our reputation.

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, payment of contingent or other sales commissions, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts, including punitive and treble damages, which may remain unknown for substantial periods of time. We are also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state and federal regulators and other authorities. A substantial legal

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liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition and results of operations.

Recently, the insurance industry has become the focus of increased scrutiny by regulatory and law enforcement authorities concerning certain practices within the insurance industry. This scrutiny includes the commencement of investigations and other proceedings by the New York State Attorney General and other governmental authorities relating to allegations of improper conduct in connection with the payment of, and the failure to disclose, contingent commissions by insurance companies to insurance brokers and agents, the solicitation and provision of fictitious or inflated quotes, the use of inducements to brokers or companies in the sale of insurance products and the use of captive reinsurance arrangements. We have not received a subpoena or inquiry from the State of New York with respect to these matters. However, as part of industry-wide inquiries in this regard, we have received inquiries and informational requests with respect to some of these matters from other federal and state regulatory authorities. We have responded to these inquiries and informational requests and will continue to cooperate with these regulatory authorities.

Recent industry-wide inquiries also include those regarding market timing and late trading in variable annuity contracts, variable annuity sales practices/exchanges and electronic communication document retention practices. In this regard, we responded in late 2003 to a New York State Attorney General subpoena regarding market timing and late trading in variable products and mutual funds. We have not received any further inquiries from the New York State Attorney General regarding these matters, although we received inquiries and informational requests regarding these matters from other federal and state regulatory authorities. We have responded to these inquiries, follow-up inquiries and informational requests and will continue to cooperate with these regulatory authorities.

We cannot assure you that the current investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. It is also possible that related investigations and proceedings may be commenced in the future, and we could become subject to further investigations and have lawsuits filed or enforcement actions initiated against us. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions or precedents and industry-wide regulations or practices that could adversely affect our business, financial condition and results of operation. For further details regarding the litigation in which we are involved, see [Business Legal Proceedings](#).

We have significant operations in India that could be adversely affected by changes in the political or economic stability of India or government policies in India, the U.S. or Europe.

Through an arrangement with an outsourcing provider that is 40% owned by GE, we have a substantial team of professionals in India who provide a variety of services to our insurance operations, including customer service, transaction processing, and functional support including finance, investment research, actuarial, risk and marketing. See [Arrangements Between GE and Our Company Relationship with GE Arrangements Regarding Our Operations in India](#). The development of an operations center in India has been facilitated partly by the liberalization policies pursued by the Indian government over the past decade. The current government of India, formed in October 1999, has announced policies and taken initiatives that support the continued economic liberalization policies that have been pursued by previous governments. However, we cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting our business could change as well. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.

The political or regulatory climate in the U.S. or Europe also could change so that it would not be practical or legal for us to use international operations centers, such as call centers. For example, changes in privacy

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regulations, or more stringent interpretation or enforcement of these regulations, could require us to curtail our use of low-cost operations in India to service our businesses, which could reduce the cost benefits we currently realize from using these operations.

The continued threat of terrorism, the occurrence of terrorist acts and ongoing military actions could adversely affect our financial condition and results of operations.

The continued threat of terrorism and ongoing military actions, as well as heightened security measures in response to these threats and actions, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio. We cannot predict whether, and the extent to which, companies in which we maintain investments may suffer losses as a result of financial, commercial or economic disruptions, or how any such disruptions might affect the ability of those companies to pay interest or principal on their securities. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist actions also could disrupt our operations centers in the U.S. or abroad. In addition, the occurrence of terrorist actions could result in higher claims under our insurance policies than we had anticipated. For example, we incurred approximately \$25 million in losses related to the terrorist events of September 11, 2001.

Risks Relating to Our Protection and Retirement Income and Investments Segments

We may face losses if morbidity rates, mortality rates or unemployment rates differ significantly from our pricing expectations.

We set prices for our insurance and some annuity products based upon expected claims and payment patterns, using assumptions for, among other things, morbidity rates, or likelihood of sickness, and mortality rates, or likelihood of death, of our policyholders and contractholders. The long-term profitability of these products depends upon how our actual experience compares with our pricing assumptions. For example, if morbidity rates are higher, or mortality rates are lower, than our pricing assumptions, we could be required to make greater payments under long-term care insurance policies and annuity contracts than we had projected. Conversely, if mortality rates are higher than our pricing assumptions, we could be required to make greater payments under our life and payment protection insurance policies and annuity contracts with guaranteed minimum death benefits than we had projected.

The risk that our claims experience may differ significantly from our pricing assumptions is particularly significant for our long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, our actual claims experience will emerge over many years after pricing assumptions have been established. Moreover, as a relatively new product in the market, long-term care insurance does not have the extensive claims experience history of life insurance, and as a result, our ability to forecast future claim rates for long-term care insurance is more limited than for life insurance.

In pricing our payment protection insurance, we also use assumptions regarding unemployment levels. If unemployment levels are higher than our pricing assumptions, the claims frequency could be higher for our payment protection insurance business than we had projected.

We may be required to accelerate the amortization of deferred acquisition costs and the present value of future profits, which would increase our expenses and reduce profitability.

Deferred acquisition costs, or DAC, represent costs which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts that are deferred and amortized over the estimated

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life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and contract and policy issuance expenses. Under U.S. GAAP, DAC is subsequently amortized to income, over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits. In addition, when we acquire a block of insurance policies or investment contracts, we assign a portion of the purchase price to the right to receive future net cash flows from existing insurance and investment contracts and policies. This intangible asset, called the present value of future profits, or PVFP, represents the actuarially estimated present value of future cash flows from the acquired policies. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our amortization of DAC and PVFP generally depends upon anticipated profits from investments, surrender and other policy and contract charges, mortality, morbidity and maintenance expense margins. Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC or PVFP, or both, or to record a charge to increase benefit reserves.

We regularly review DAC and PVFP to determine if they are recoverable from future income. If these costs are not recoverable, they are charged to expenses in the financial period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a block of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as a current-period expense. As of December 31, 2004 and 2003, respectively, we had \$5.0 billion and \$5.8 billion of DAC, and \$0.7 billion and \$1.2 billion of PVFP. Our net amortization of DAC and PVFP was \$1.1 billion, \$1.3 billion and \$1.2 billion of DAC and PVFP for the years ended December 31, 2004, 2003 and 2002, respectively.

We may be required to recognize impairment in the value of our goodwill, which would increase our expenses and reduce our profitability.

Goodwill represents the excess of the amount we paid to acquire our subsidiaries and other businesses over the fair value of their net assets at the date of the acquisition. Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the reporting unit level, which is either an operating segment or a business one level below the operating segment. Goodwill is impaired if the fair value of the reporting unit as a whole is less than the fair value of the identifiable assets and liabilities of the reporting unit, plus the carrying value of goodwill, at the date of the test. For example, goodwill may become impaired if the fair value of a reporting unit as a whole were to decline by an amount greater than the decline in the value of its individual identifiable assets and liabilities. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate of return than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense. When we adopted Statement of Financial Accounting Standards 142 with respect to recognizing impairment of goodwill, effective January 1, 2002, we recognized a \$376 million impairment, net of tax, relating to our domestic auto and homeowners insurance business (included in discontinued operations), primarily as a result of heightened price competition in the auto insurance industry.

Our reputation in the long-term care insurance market may be adversely affected if we were to raise premiums on our in-force long-term care insurance products.

Unlike several of our competitors, we have never increased premiums on any in-force long-term care policies that we have issued. Although the terms of all our long-term care insurance policies permit us to increase premiums during the premium-paying period, any implementation of a premium increase could have an adverse effect on our reputation, our ability to market and sell new long-term care insurance products and our ability to retain existing policyholders.

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Medical advances, such as genetic research and diagnostic imaging, and related legislation could adversely affect the financial performance of our life insurance, long-term care insurance and annuities businesses.

Genetic research includes procedures focused on identifying key genes that render an individual predisposed to specific diseases, such as particular types of cancer and other diseases. Other medical advances, such as diagnostic imaging technologies, also may be used to detect the early onset of diseases such as cancer and cardiovascular disease. We believe that if individuals learn through medical advances that they are predisposed to particular conditions that may reduce life longevity or require long-term care, they will be more likely to purchase our life and long-term care insurance policies or not to permit existing policies to lapse. In contrast, if individuals learn that they lack the genetic predisposition to develop the conditions that reduce longevity or require long-term care, they will be less likely to purchase our life and long-term care insurance products but more likely to purchase certain annuity products. In addition, such individuals that are existing policyholders will be more likely to permit their policies to lapse.

If we were to gain access to the same genetic or medical information as our prospective policyholders and contractholders, then we would be able to take this information into account in pricing our life and long-term care insurance policies and annuity contracts. However, there are a number of regulatory proposals that would make genetic and other medical information confidential and unavailable to insurance companies. The U.S. Senate has approved a bill that would prohibit group health plans, health insurers and employers from making enrollment decisions or adjusting premiums on the basis of genetic testing information. This legislation is now pending before a committee at the House of Representatives. Legislators in certain states also have introduced similar legislation. If these regulatory proposals were enacted, prospective policyholders and contractholders would only disclose this information if they chose to do so voluntarily. These factors could lead us to reduce sales of products affected by these regulatory proposals and could result in a deterioration of the risk profile of our portfolio, which could lead to payments to our policyholders and contractholders that are higher than we anticipated.

Medical advances also could lead to new forms of preventative care. Preventative care could extend the life and improve the overall health of individuals. If this were to occur, the duration of payments under certain of our annuity products likely would increase, thereby reducing net earnings in that business.

We may face losses if there are significant deviations from our assumptions regarding the future persistency of our insurance policies and annuity contracts.

The prices and expected future profitability of our insurance and deferred annuity products are based in part upon expected patterns of premiums, expenses and benefits, using a number of assumptions, including those related to persistency, which is the probability that a policy or contract will remain in-force from one period to the next. The effect of persistency on profitability varies for different products. For most of our life insurance, group life and health insurance, and deferred annuity products, actual persistency that is lower than our persistency assumptions could have an adverse impact on profitability, especially in the early years of a policy or contract primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy or contract. For the years ended December 31, 2004, 2003 and 2002, persistency in our life insurance and fixed annuity businesses has been slightly higher than assumed, while persistency in our variable annuity and certain group life and health insurance products has been slightly lower than we had assumed.

For our long-term care insurance and some other health insurance policies, actual persistency in later policy durations that is higher than our persistency assumptions could have a negative impact on profitability. If these policies remain in-force longer than we assumed, then we could be required to make greater benefit payments than we had anticipated when we priced these products. This risk is particularly significant in our long-term care insurance business because we do not have the experience history that we have in many of our other businesses. As a result, our ability to predict persistency for long-term care insurance is more limited than for many other products. Some of our long-term care insurance policies have experienced higher persistency than we had assumed, which has resulted in adverse claims experience.

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Because our assumptions regarding persistency experience are inherently uncertain, reserves for future policy benefits and claims may prove to be inadequate if actual persistency experience is different from those assumptions. Although some of our products permit us to increase premiums during the life of the policy or contract, we cannot guarantee that these increases would be sufficient to maintain profitability. Moreover, many of our products do not permit us to increase premiums or limit those increases during the life of the policy or contract. Significant deviations in experience from pricing expectations regarding persistency could have an adverse effect on the profitability of our products.

Regulation XXX may have an adverse effect on our financial condition and results of operations by requiring us to increase our statutory reserves for term life and universal life insurance or incur higher operating costs.

The Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers to establish additional statutory reserves for term and universal life insurance policies with long-term premium guarantees. Virtually all our newly issued term and universal life insurance business is now affected by Regulation XXX.

In response to this regulation, we have increased term and universal life insurance statutory reserves and changed our premium rates for term life insurance products. We also have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX. However, we cannot assure you that there will not be regulatory or other challenges to the actions we have taken to date. The result of those challenges could require us to increase statutory reserves or incur higher operating costs. Any change to or repeal of Regulation XXX could reduce the competitive advantage of our reinsurance and capital management actions in response to Regulation XXX and could adversely affect our market position in the life insurance market.

We also cannot assure you that we will be able to continue to implement actions to mitigate the impact of Regulation XXX on future sales of term and universal life insurance products. If we are unable to continue to implement those actions, we may be required to increase statutory reserves, incur higher operating costs than we currently anticipate, or reduce our sales of these products. We also may have to implement measures that may be disruptive to our business. For example, because term and universal life insurance are particularly price-sensitive products, any increase in premiums charged on these products in order to compensate us for the increased statutory reserve requirements or higher costs of reinsurance may result in a significant loss of volume and adversely affect our life insurance operations.

If demand for long-term care insurance continues to decline, we will not be able to execute our strategy to expand our business in this market.

We have devoted significant resources to developing our long-term care insurance business, and our growth strategy relies partly upon continued growth of this market. In recent years, however, sales of individual long-term care insurance have declined. Annualized first-year premiums for individual long-term care insurance peaked in 2002 at approximately \$1.0 billion and decreased by 7% in 2003 and 25% in 2004, according to LIMRA International. We believe this decrease was due primarily to decisions by several providers to cease offering long-term care insurance, to raise premiums on in-force policies and/or to introduce new products with higher prices. These actions resulted in decreased purchases of long-term care insurance products and have caused some distributors to reduce their sales focus on these products. As a result, our annualized first-year premiums of long-term care insurance decreased from \$257 million for the year ended December 31, 2002 to \$240 million and \$162 million for the years ended December 31, 2003 and 2004, respectively. If the market for long-term care insurance continues to decline, we may be unable to realize our growth strategy in this area and our financial condition and results of operations could be adversely affected.

Changes in tax laws could make some of our products less attractive to consumers.

Changes in tax laws could make some of our products less attractive to consumers. For example, in May 2003, U.S. President George Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003,

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which reduced the federal income tax that investors are required to pay on long-term capital gains and on some dividends paid on stock. This reduction may provide an incentive for some of our customers and potential customers to shift assets into mutual funds and away from products, including annuities, designed to defer taxes payable on investment returns. Because the income taxes payable on long-term capital gains and some dividends paid on stock have been reduced, investors may decide that the tax-deferral benefits of annuity contracts are less advantageous than the potential after-tax income benefits of mutual funds or other investment products that provide dividends and long-term capital gains. A shift away from annuity contracts and other tax-deferred products would reduce our income from sales of these products, as well as the assets upon which we earn investment income.

We cannot predict whether any other legislation will be enacted, what the specific terms of any such legislation will be or how, if at all, this legislation or any other legislation could have an adverse effect on our financial condition and results of operations.

Changes in U.S. federal and state securities laws may affect our operations and our profitability.

U.S. federal and state securities laws apply to investment products that are also securities, including variable annuities and variable life insurance policies. As a result, some of our subsidiaries and the policies and contracts they offer are subject to regulation under these federal and state securities laws. Our insurance subsidiaries' separate accounts are registered as investment companies under the Investment Company Act of 1940. Some variable annuity contracts and variable life insurance policies issued by our insurance subsidiaries also are registered under the Securities Act of 1933. Other subsidiaries are registered as broker-dealers under the Securities Exchange Act of 1934 and are members of, and subject to, regulation by the National Association of Securities Dealers, Inc. In addition, some of our subsidiaries also are registered as investment advisers under the Investment Advisers Act of 1940.

Securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets or investment advisory or brokerage clients. These laws and regulations generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with those laws and regulations. Changes to these laws or regulations that restrict the conduct of our business could have an adverse effect on our financial condition and results of operations.

Risks Relating to Our Mortgage Insurance Segment

Fannie Mae, Freddie Mac and a small number of large mortgage lenders exert significant influence over the U.S. mortgage insurance market.

Our mortgage insurance products protect mortgage lenders and investors from default-related losses on residential first mortgage loans made primarily to home buyers with high loan-to-value mortgages—generally, those home buyers who make down payments of less than 20% of their home's purchase price. The largest purchasers and guarantors of mortgage loans in the U.S. are Fannie Mae and Freddie Mac, which were created by Congressional charter to ensure that mortgage lenders have sufficient funds to continue to finance home purchases. For the nine months ended September 30, 2004, Fannie Mae purchased approximately 21.3% of all the mortgage loans originated in the U.S., and Freddie Mac purchased approximately 14.8%, according to statistics published by *Inside the GSEs*. Fannie Mae's and Freddie Mac's charters generally prohibit them from purchasing any mortgage with a face amount that exceeds 80% of the home's value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of default. As a result, high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac generally are insured with private mortgage insurance. These provisions in Fannie Mae's and Freddie Mac's charters create much of the demand for private mortgage insurance in the U.S. For the year ended December 31, 2004, Fannie Mae and Freddie Mac purchased approximately 68% of the flow mortgage loans that we insured. As a result, a change in these

provisions relating to their purchase or guarantee activity could have an adverse effect on our financial condition and results of operations.

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In addition, increasing consolidation among mortgage lenders in recent years has resulted in significant customer concentration for mortgage insurers. Ten mortgage lenders accounted for approximately 27% of our flow new insurance written for the year ended December 31, 2004.

As a result of the significant concentration in mortgage originators and purchasers, Fannie Mae, Freddie Mac and the largest mortgage lenders possess substantial market power which enables them to influence our business and the mortgage insurance industry in general. Although we actively monitor and develop our relationships with Fannie Mae, Freddie Mac and our largest mortgage lending customers, a deterioration in any of these relationships, or the loss of business from any of our key customers, could have an adverse effect on our financial condition and results of operations.

Our mortgage insurance business is one of the members of the Mortgage Insurance Companies of America, or MICA. In 1999, several large mortgage lenders and a coalition of financial services and housing-related trade associations, including MICA, formed FM Watch, now known as FM Policy Focus, a lobbying organization that supports expanded federal oversight and legislation relating to the role of Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have criticized and lobbied against the positions taken by FM Policy Focus. These lobbying activities could, among other things, polarize Fannie Mae, Freddie Mac and members of FM Policy Focus. As a result of this possible polarization, our relationships with Fannie Mae and Freddie Mac may limit our opportunities to do business with some mortgage lenders, and our relationships with mortgage lenders who are members of FM Policy Focus may limit our ability to do business with Fannie Mae and Freddie Mac, as well as with mortgage lenders who are not members of FM Policy Focus and are opposed to these efforts. Any of these outcomes could have an adverse effect on our financial condition and results of operations.

Results from investigations into Fannie Mae's and Freddie Mac's accounting practices, disclosures and other matters may result in legislative or regulatory changes governing the operations of Freddie Mac, Fannie Mae and other government-sponsored enterprises, which could adversely affect the results of our U.S. mortgage insurance business.

Fannie Mae and Freddie Mac are subject to ongoing investigations regarding their accounting practices, disclosures and other matters. These investigations may contribute to changes in legislation and regulations governing their operations and the operations of other government-sponsored enterprises. We cannot predict whether any such legislation or regulations will be enacted or adopted, how they may affect the operations of Fannie Mae, Freddie Mac or other government-sponsored enterprises, or how they may affect our operations, financial condition and results of operations.

A decrease in the volume of high loan-to-value home mortgage originations or an increase in the volume of mortgage insurance cancellations could result in a decline in our revenue.

We provide mortgage insurance primarily for high loan-to-value mortgages. Factors that could lead to a decrease in the volume of high loan-to-value mortgage originations include:

a change in the level of home mortgage interest rates;

a decline in economic conditions generally, or in conditions in regional and local economies;

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the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;

declines in the price of homes;

adverse population trends, including lower homeownership rates;

high rates of home price appreciation, which in times of heavy refinancing affect whether refinanced loans have loan-to-value ratios that require mortgage insurance; and

changes in government housing policy encouraging loans to first-time homebuyers.

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A decline in the volume of high loan-to-value mortgage originations would reduce the demand for mortgage insurance and, therefore, could have an adverse effect on our financial condition and results of operations.

In addition, a significant percentage of the premiums we earn each year in our U.S. mortgage insurance business are renewal premiums from insurance policies written in previous years. We estimate that approximately 85% and 70% of our gross premiums written for the years ended December 31, 2004 and 2003, respectively, were renewal premiums. As a result, the length of time insurance remains in force is an important determinant of our mortgage insurance revenues. Fannie Mae, Freddie Mac and many other mortgage investors in the U.S. generally permit a homeowner to ask his loan servicer to cancel his mortgage insurance when the principal amount of the mortgage falls below 80% of the home value. Factors that tend to reduce the length of time our mortgage insurance remains in force include:

declining interest rates, which may result in the refinancing of the mortgages underlying our insurance policies with new mortgage loans that may not require mortgage insurance or that we do not insure;

significant appreciation in the value of homes, which causes the size of the mortgage to decrease below 80% of the value of the home and enables the borrower to request cancellation of the mortgage insurance; and

changes in mortgage insurance cancellation requirements under applicable federal law or mortgage insurance cancellation practices by mortgage lenders and investors.

These factors contributed to a decrease in our U.S. policy persistency rates from 57% for the year ended December 31, 2002 to 46% for the year ended December 31, 2003. Although U.S. policy persistency rates increased to 65% for the year ended December 31, 2004, a further increase in the volume of mortgage insurance cancellations in the U.S. generally would reduce the amount of our insurance in force and have an adverse effect on our financial condition and results of operations. These factors are less significant in our international mortgage insurance operations because we generally receive a single payment for mortgage insurance at the time a loan closes, and this premium typically is not refundable if the policy is canceled.

Continued increases in the volume of simultaneous second mortgages could have an adverse effect on the U.S. market for mortgage insurance.

High loan-to-value mortgages can consist of two simultaneous loans, known as simultaneous seconds, comprising a first mortgage with a loan-to-value ratio of 80% and a simultaneous second mortgage for the excess portion of the loan, instead of a single mortgage with a loan-to-value ratio of more than 80%. Simultaneous second loans are also often known as 80-10-10 loans because they often comprise a first mortgage with an 80% loan-to-value ratio, a second mortgage with a 10% loan-to-value ratio and the remaining 10% paid in cash by the buyer, rather than a single mortgage with a 90% loan-to-value ratio.

Over the past several years, the volume of simultaneous second loans as an alternative to loans requiring private mortgage insurance has increased substantially. We believe this recent increase reflects the following factors:

the lower monthly cost of simultaneous second loans compared to the cost of mortgage insurance, due to of the current low-interest-rate environment and the emerging popularity of 15- and 30-year amortizing and adjustable rate simultaneous seconds;

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the tax deductibility in most cases of interest on a second mortgage, in contrast to the non-deductibility of mortgage insurance payments;

negative consumer, broker and realtor perceptions about mortgage insurance; and

the desire by some investors to hold second mortgages.

Further increases in the volume of simultaneous seconds may cause corresponding decreases in the use of mortgage insurance for high loan-to-value mortgages, which could have an adverse effect on our financial condition and results of operations.

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The amount of mortgage insurance we write could decline significantly if mortgage lenders and investors select other alternatives to private mortgage insurance to protect against default risk or if lenders select lower coverage levels of mortgage insurance.

Lenders may seek to mitigate their mortgage default risks through a variety of alternatives to private mortgage insurance other than simultaneous second mortgages. These alternatives include:

using government mortgage insurance programs, including those of the FHA, the VA and Canada Mortgage and Housing Corporation, or CMHC;

holding mortgages in their own loan portfolios and self-insuring;

using programs, such as those offered by Fannie Mae and Freddie Mac, requiring lower mortgage insurance coverage levels;

originating and securitizing loans in mortgage-backed securities whose underlying mortgages are not insured with private mortgage insurance or which are structured so that the risk of default lies with the investor, rather than a private mortgage insurer; and

using credit default swaps or similar instruments, instead of private mortgage insurance, to transfer credit risk on mortgages.

A decline in the use of private mortgage insurance in connection with high loan-to-value home mortgages for any reason would reduce the size of the mortgage insurance market and could have an adverse effect on our financial condition and results of operations.

Our claims expenses would increase and our results of operations would suffer if the rate of defaults on mortgages covered by our mortgage insurance increases or the severity of such defaults exceeds our expectations.

Our premium rates vary with the perceived risk of a claim on the insured loan, which takes into account factors such as the loan-to-value ratio, our long-term historical loss experience, whether the mortgage provides for fixed payments or variable payments, the term of the mortgage, the borrower's credit history and the level of documentation and verification of the borrower's income and assets. We establish renewal premium rates for the life of a mortgage insurance policy upon issuance, and we cannot cancel the policy or adjust the premiums after the policy is issued. As a result, we cannot offset the impact of unanticipated claims with premium increases on policies in force, and we cannot refuse to renew mortgage insurance coverage. The premiums we agree to charge upon writing a mortgage insurance policy may not adequately compensate us for the risks and costs associated with the coverage we provide for the entire life of that policy.

The long-term profitability of our mortgage insurance business depends upon the accuracy of our pricing assumptions. If defaults on mortgages increase because of an economic downturn or for reasons we failed to take into account adequately, we would be required to make greater claim payments than we planned when we priced our policies. Future claims on our mortgage insurance policies may not match the assumptions made in our pricing. An increase in the amount or frequency of claims beyond the levels contemplated by our pricing assumptions could have an adverse effect on our financial condition and results of operations. In recent years, our results of operations have benefited from historically low loss ratios because of significant home price appreciation and low levels of defaults. Increases from these recent historic lows could have an adverse effect on our financial condition and results of operations.

As of December 31, 2004, approximately 80% of our U.S. mortgage insurance risk in force and 72% of our international mortgage insurance risk in force had not yet reached its anticipated highest claim frequency years, which are generally between the third and seventh year of the loan. As a result, we expect our loss experience on these loans will increase as policies continue to age. If the claim frequency on the risk in force significantly exceeds the claim frequency that was assumed in setting premium rates, our financial condition, results of operations and cash flows would be adversely affected.

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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. Alt A loans represented 2.8%, 1.9% and 2.5% of our risk in force as of December 31, 2004, 2003 and 2002, respectively. Alt A loans typically have a higher default rate than fully documented loans, and we generally charge higher premiums for mortgage insurance on Alt A loans than on fully documented loans. If defaults on Alt A loans are higher than the assumptions we made in pricing our mortgage insurance on those loans, then we would be required to make greater claims payments than we had projected, which could have an adverse effect on our financial condition and results of operations.

A deterioration in economic conditions may adversely affect our loss experience in mortgage insurance.

Losses in our mortgage insurance business generally result from events, such as reduction of income, unemployment, divorce, illness and inability to manage credit and interest-rate levels that reduce a borrower's ability to continue to make mortgage payments. The amount of the loss we suffer, if any, depends in part on whether the home of a borrower who defaults on a mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. A deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which increases our risk of loss.

A substantial economic downturn across the entire U.S. could have a significant adverse effect on our financial condition and results of operations. We also may be particularly affected by economic downturns in states where a large portion of our business is concentrated. As of December 31, 2004, approximately 50% of our risk in force was concentrated in 10 states, with 8% in Florida, 7% in Texas and 6% in New York. Similarly, our mortgage insurance operations in Canada, Australia and the U.K. are concentrated in the largest cities in those countries. Continued and prolonged adverse economic conditions in these states or cities could result in high levels of claims and losses, which could have an adverse effect on our financial condition and results of operations.

A significant portion of our risk in force consists of loans with high loan-to-value ratios, which generally result in more and larger claims than loans with lower loan-to-value ratios.

Mortgage loans with higher loan-to-value ratios typically have claim incidence rates substantially higher than mortgage loans with lower loan-to-value ratios. In our U.S. mortgage insurance business as of December 31, 2004:

16% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 95%;

41% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 90% but less than or equal to 95%;

41% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 80% but less than or equal to 90%; and

2% of our risk in force consisted of mortgage loans with original loan-to-value ratios less than or equal to 80%.

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In Canada, Australia and New Zealand, the risks of having a portfolio with a significant portion of high loan-to-value mortgages are greater than in the U.S. and Europe because we generally agree to cover 100% of the losses associated with mortgage defaults in those markets, compared to percentages in the U.S. and Europe that are typically 12% to 35% of the loan amount. In our non-U.S. mortgage insurance business as of December 31, 2004:

less than 1% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 95%;

24% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 90% but less than or equal to 95%;

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38% of our risk in force consisted of mortgage loans with original loan-to-value ratios greater than 80% but less than or equal to 90%; and

37% of our risk in force consisted of mortgage loans with original loan-to-value ratios less than or equal to 80%.

Although mortgage insurance premiums for higher loan-to-value ratio loans generally are higher than for loans with lower loan-to-value ratios, the difference in premium rates may not be sufficient to compensate us for the enhanced risks associated with mortgage loans bearing higher loan-to-value ratios.

We cede a portion of our U.S. mortgage insurance business to mortgage reinsurance companies affiliated with our mortgage lending customers, and this reduces our profitability.

We, like other mortgage insurers, offer opportunities to our mortgage lending customers that are designed to allow them to participate in the risks and rewards of the mortgage insurance business. Many of the major mortgage lenders with which we do business have established captive mortgage reinsurance subsidiaries. These reinsurance subsidiaries assume a portion of the risks associated with the lender's insured mortgage loans in exchange for a percentage of the premiums. In most cases, our reinsurance coverage is an excess of loss arrangement with a limited band of exposure for the reinsurer. This means that we are required to pay the first layer of losses arising from defaults in the covered mortgages, the reinsurer indemnifies us for the next layer of losses, and we pay any losses in excess of the reinsurer's obligations. The effect of these arrangements historically has been a reduction in the profitability and return on capital of this business to us. Approximately 70% of our primary new risk written as of December 31, 2004 was subject to captive mortgage reinsurance, compared to approximately 75% as of December 31, 2003. Premiums ceded to these reinsurers were approximately \$143 million, \$139 million and \$113 million for the years ended December 31, 2004, 2003 and 2002, respectively. These premium cessions have adversely affected our profitability and could further reduce profitability if the terms of these arrangements require greater premium cessions.

If efforts by Fannie Mae and Freddie Mac to reduce the need for mortgage insurance are successful, they could adversely affect the results of our U.S. mortgage insurance business.

Freddie Mac has sought changes to the provisions of its Congressional charter that requires private mortgage insurance for low-down-payment mortgages and has lobbied the U.S. Congress for amendments that would permit Fannie Mae and Freddie Mac to use alternative forms of default loss protection or otherwise forego the use of private mortgage insurance. In October 1998, the U.S. Congress passed legislation to amend Freddie Mac's charter to give it flexibility to use credit enhancements other than private mortgage insurance for down-payment mortgages. Although this charter amendment was quickly repealed, we cannot predict whether similar legislation may be proposed or enacted in the future.

Fannie Mae and Freddie Mac have the ability to implement new eligibility requirements for mortgage insurers. They also have the authority to increase or reduce required mortgage insurance coverage percentages and to alter or liberalize underwriting standards on low-down-payment mortgages they purchase. We cannot predict the extent to which any new requirements may be enacted or how they may affect the operations of our mortgage insurance business, our capital requirements and our products.

Changes in the policies of the Federal Home Loan Banks could reduce the demand for U.S. mortgage insurance.

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The Federal Home Loan Banks, or FHLBs, purchase single-family conforming mortgage loans originated by participating member institutions. Although the FHLBs are not required to purchase insurance for mortgage loans, they currently use mortgage insurance on substantially all mortgage loans with a loan-to-value ratio above 80% and have become a source of new business for us. If the FHLBs were to reduce their purchases of mortgage loans, purchase uninsured mortgage loans or increase the loan-to-value ratio threshold above which they require mortgage insurance, the market for mortgage insurance could decrease, and our mortgage insurance business could be adversely affected.

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We compete with government-owned and government-sponsored entities in our mortgage insurance business, and this may put us at a competitive disadvantage on pricing and other terms and conditions.

Our mortgage insurance business competes with many different government-owned and government-sponsored entities in the U.S., Canada and some European countries. In the U.S., these entities include principally the FHA and, to a lesser degree, the VA, Fannie Mae and Freddie Mac, as well as local and state housing finance agencies. In Canada, we compete with the CMHC, a Crown corporation owned by the Canadian government. In Europe, these entities include public mortgage guarantee facilities in a number of countries.

Those competitors may establish pricing terms and business practices that may be influenced by motives such as advancing social housing policy or stabilizing the mortgage lending industry, which may not be consistent with maximizing return on capital or other profitability measures. In addition, those governmental entities typically do not have the same capital requirements that we and other mortgage insurance companies have and therefore may have financial flexibility in their pricing and capacity that could put us at a competitive disadvantage in some respects. In the event that a government-owned or sponsored entity in one of our markets determines to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have an adverse effect on our financial condition and results of operations.

We compete in Canada with the CMHC, which is owned by the Canadian government and, as a sovereign entity, provides mortgage lenders with 100% capital relief from bank regulatory requirements on loans that it insures. In contrast, lenders receive only 90% capital relief on loans we insure. CMHC also operates the Canadian Mortgage Bond Program, which provides lenders the ability to efficiently guaranty and securitize their mortgage loan portfolios. If we are unable to effectively distinguish ourselves competitively with our Canadian mortgage lender customers, we may be unable to compete effectively with the CMHC as a result of the more favorable capital relief it can provide or the other products and incentives that it offers to lenders.

Changes in regulations that affect the mortgage insurance business could affect our operations significantly and could reduce the demand for mortgage insurance.

In addition to the general regulatory risks that are described above under Our insurance businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth, we are also affected by various additional regulations relating particularly to our mortgage insurance operations.

U.S. federal and state regulations affect the scope of our competitors' operations, which has an effect on the size of the mortgage insurance market and the intensity of the competition in our mortgage insurance business. This competition includes not only other private mortgage insurers, but also U.S. federal and state governmental and quasi-governmental agencies, principally the FHA, and to a lesser degree, the VA, which are governed by federal regulations. Increases in the maximum loan amount that the FHA can insure, and reductions in the mortgage insurance premiums the FHA charges, can reduce the demand for private mortgage insurance. The FHA has also streamlined its down-payment formula and made FHA insurance more competitive with private mortgage insurance in areas with higher home prices. These and other legislative and regulatory changes could cause demand for private mortgage insurance to decrease.

Our U.S. mortgage insurance business, as a credit enhancement provider in the residential mortgage lending industry, also is subject to compliance with various federal and state consumer protection and insurance laws, including the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Homeowners Protection Act, the Federal Fair Credit Reporting Act, the Fair Debt

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Collection Practices Act and others. Among other things, these laws prohibit payments for referrals of settlement service business, require fairness and non-discrimination in granting or facilitating the granting of credit, require cancellation of insurance and refund of unearned premiums under certain circumstances, govern the circumstances under which companies may obtain and use consumer credit information, and define the manner in which companies may pursue

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collection activities. Changes in these laws or regulations could adversely affect the operations and profitability of our mortgage insurance business. For example, the Department of Housing and Urban Development is considering a rule that would exempt certain mortgages that provide a single price for a package of settlement services from the prohibition in the Real Estate Settlement Procedures Act, or RESPA, against payments for referrals of settlement service business. If mortgage insurance were included among the settlement services that, when offered as a package, would be exempt from this prohibition, then mortgage lenders would have greater leverage in obtaining business concessions from mortgage insurers.

The Office of Thrift Supervision recently amended its capital regulations to increase from 80% to 90% the loan-to-value threshold in the definition of a qualifying mortgage loan. The capital regulations assign a lower risk weight to qualifying mortgage loans than to non-qualifying loans. As a result, these new regulations no longer penalize mortgage lenders for retaining loans that have loan-to-value ratios between 80% and 90% without credit enhancements. Other regulators, including the U.S. Federal Deposit Insurance Corporation, also have raised corresponding loan-to-value thresholds for qualifying mortgage loans from 80% to 90%.

Lenders and loan aggregators also have faced new liabilities and compliance risks posed by state and local laws which have been enacted in recent years to combat predatory lending practices. In February 2003 and March 2004, the Ney-Lucas Responsible Lending Act of 2003 and the Prohibit Predatory Lending Act of 2004, respectively, were introduced in the U.S. House of Representatives but were not enacted into law. These or similar bills, if reintroduced and enacted, would, among other things, prohibit certain lending practices on high-cost mortgages and limit the liability of persons who comply with the law. It is unclear in what form, if any, such bills will be enacted or what impact they would have on our business and the mortgage lending, securitization, and insurance industries generally.

Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by banks, trust companies and insurers with loan-to-value ratios greater than 75%. In February 2005, as part of a periodic review of the federal financial services regulatory framework, the Canadian Department of Finance issued a consultation document seeking comment on a wide variety of potential initiatives relating to the regulation of financial services, including whether to remove the statutory requirement for mortgage insurance on all loans with loan-to-value ratios greater than 75%. The removal of the statutory requirement for mortgage insurance, in whole or in part, may result in a reduction in the amount of business we write in future years in Canada. See Regulation Mortgage Insurance International Regulation Canada.

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 fail to make claim payments with respect to that loan because of insolvency. This guarantee provides that the government has the right to review the terms of the guarantee in certain circumstances, including if GE's ownership of our Canadian mortgage insurance company decreases below 50%. After this offering and the stock repurchase, GE will beneficially own approximately 52% of our common stock. When GE reduces its equity ownership of us to below 50%, that reduction would permit the Canadian government to review the terms of its guarantee and could lead to a termination of the guarantee for any new insurance written after the termination. Although we believe the Canadian government will preserve the guarantee to maintain competition in the Canadian mortgage insurance industry, any adverse change in the guarantee's terms and conditions or termination of the guarantee could have an adverse effect on our ability to continue offering mortgage insurance products in Canada.

The Australian Prudential Regulatory Authority, or APRA, regulates all financial institutions in Australia, including general, life and mortgage insurance companies. APRA also determines the capital requirements for depository institutions and provides for reduced capital requirements for depository institutions that insure residential mortgages with loan-to-value ratios above 80% (in the case of standard loans) and, from October 1, 2004, with loan-to-value ratios above 60% (in the case of non-standard type loans). APRA's regulations currently

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require APRA-regulated lenders to determine the criteria for determining if a loan is a non-standard type loan. APRA currently is proposing to increase the capital requirements that govern mortgage insurers in Australia, particularly in the event of a severe recession accompanied by a significant decline in housing values. If, after completing its review process, APRA concludes that the capital requirements that currently govern mortgage insurers are not sufficient and decides to increase the amount of capital required for mortgage insurers, we may, depending on the amount of such increase, be required to increase the capital in our Australian mortgage insurance business. This would reduce our returns on capital from those operations.

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, may encourage 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. Basel II was finalized and issued in June 2004; however, its adoption by individual countries is ongoing. Therefore, we cannot predict the benefits that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance. If countries implement Basel II in a manner that does not reward lenders for using mortgage insurance as a credit risk mitigant on high loan-to-value mortgage loans, or if lenders conclude that mortgage insurance does not provide sufficient capital incentives, then we may have to revise our product offerings to meet the new requirements and our results of operations may be adversely affected.

Our U.S. mortgage insurance business could be adversely affected by legal actions under RESPA.

RESPA prohibits paying lenders for the referral of settlement services, including mortgage insurance. This precludes us from providing services to mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that others provide that are higher than their reasonable or fair market value. In addition, RESPA prohibits persons from giving or accepting any portion or percentage of a charge for a real estate settlement service, other than for services actually performed. A number of lawsuits, including some that were class actions, have challenged the actions of private mortgage insurers, including our company, under RESPA, alleging that the insurers have provided or received products or services at improperly set prices in return for the referral of mortgage insurance. We and several other mortgage insurers, without admitting any wrongdoing, reached a settlement in these cases, which includes an injunction that prohibited certain specified practices and details the basis on which mortgage insurers may provide or receive agency pool insurance, captive mortgage reinsurance, contract underwriting and other products and services and be deemed to be in compliance with RESPA. The injunction expired on December 31, 2003, and it is possible that plaintiffs will institute new litigation against private mortgage insurers, including us, to renew the injunction or to seek damages under RESPA. We also cannot predict whether our competitors will change their pricing structure or business practices now that the injunction has expired, which could require us to alter our pricing structure or business practices in response to their actions or suffer a competitive disadvantage, or whether any services we or they provide to mortgage lenders could be found to violate RESPA or any future injunction that might be issued. In addition, U.S. federal and state officials are authorized to enforce RESPA and to seek civil and criminal penalties, and we cannot predict whether these proceedings might be brought against us or other mortgage insurers. Any such proceedings could have an adverse effect on our financial condition and results of operations.

Our U.S. mortgage insurance business could be adversely affected by legal actions under the Federal Fair Credit Reporting Act.

Two actions have been filed against us in Illinois, each seeking certification of a nationwide class of consumers who allegedly were required to pay for our private mortgage insurance at a rate higher than our lowest available rate, based upon credit information we obtained. Each action alleges that the Federal Fair Credit Reporting Act, or the FCRA, requires notice to such borrowers and that we violated the FCRA by failing to give such notice. The plaintiffs in one action allege in the complaint that they are entitled to actual damages

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and damages within the Court's discretion of not more than \$1,000 for each separate violation of the FCRA. The plaintiffs in the other action allege that they are entitled to appropriate actual, punitive and statutory damages and such other or further relief as the Court deems proper. Similar cases also were filed against six other mortgage insurers. We intend to vigorously defend against the actions to which we are a party, but we cannot predict their outcome.

Potential liabilities in connection with our U.S. contract underwriting services could have an adverse effect on our financial condition and results of operations.

We offer contract underwriting services to many of our mortgage lenders in the U.S., pursuant to which our employees and contractors work directly with the lender to determine whether the data relating to a borrower and a proposed loan contained in a mortgage loan application file complies with the lender's loan underwriting guidelines or the investor's loan purchase requirements. In connection with that service, we also compile the application data and submit it to the automated underwriting systems of Fannie Mae and Freddie Mac, which independently analyze the data to determine if the proposed loan complies with their investor requirements.

Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event that 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. As a result, we assume credit and interest rate risk in connection with our contract underwriting services. Worsening economic conditions, a deterioration in the quality of our underwriting services or other factors could cause our contract underwriting liabilities to increase and have an adverse effect on our financial condition and results of operations. Although we have established reserves to provide for potential claims in connection with our contract underwriting services, we have limited historical experience that we can use to establish reserves for these potential liabilities, and these reserves may not be adequate to cover liabilities that may arise.

If the European mortgage insurance market does not grow as we expect, we will not be able to execute our strategy to expand our business into this market.

We have devoted resources to marketing our mortgage insurance products in Europe, and we plan to continue these efforts. Our growth strategy depends partly upon the development of favorable legislative and regulatory policies throughout Europe that support increased homeownership and provide capital relief for institutions that insure their mortgage loan portfolios with private mortgage insurance. In furtherance of these policies, we have collaborated with government agencies to develop bank regulatory capital requirements that provide incentives to lenders to implement risk transfer strategies such as mortgage insurance, as well as governmental policies that encourage homeownership as a wealth accumulation strategy for borrowers with limited resources to make large down payments. We have invested, and we will continue to invest, significant resources to advocate such a regulatory environment at the national and pan-European levels. However, if European legislative and regulatory agencies fail to adopt these policies, then the European markets for high loan-to-value lending and mortgage insurance may not expand as we currently anticipate, and our growth strategy in those markets may not be successful.

Risks Relating to Our Separation from GE

Our separation from GE could adversely affect our business and profitability due to GE's strong brand and reputation.

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As a subsidiary of GE, our businesses have marketed many of their products using the GE brand name and logo, and we believe the association with GE has provided many benefits, including:

a world-class brand associated with trust, integrity and longevity;

perception of high-quality products and services;

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preferred status among our customers, independent sales intermediaries and employees;

strong capital base and financial strength; and

established relationships with U.S. federal and state and non-U.S. regulators.

Our separation from GE following our corporate reorganization and the IPO could adversely affect our ability to attract and retain highly qualified independent sales intermediaries and dedicated sales specialists for our products. In addition, because of our separation from GE, some of our existing policyholders, contractholders and other customers may choose to stop doing business with us, and this could increase our rate of surrenders and withdrawals in our policies and contracts. In addition, other potential policyholders and contractholders may decide not to purchase our products because of our separation from GE.

We cannot accurately predict the effect that our separation from GE will have on our sales intermediaries, customers or employees. The risks relating to our separation from GE could materialize at various times in the future, including:

when GE reduces its ownership in our common stock to a level below 50%; and

when we cease using the GE name and logo in our sales and marketing materials, particularly when we deliver notices to our distributors and customers that the names of some of our insurance subsidiaries will change.

We only have the right to use the GE brand name and logo for a limited period of time. If we fail to establish in a timely manner a new, independently recognized brand name with a strong reputation, our revenue and profitability could decline.

Since the completion of the IPO, our corporate name has been Genworth Financial, Inc. We and our insurance and other subsidiaries may use the GE brand name and logo in marketing our products and services for only a limited period of time. Pursuant to a transitional trademark license agreement, GE granted us the right to use the GE mark and the GE monogram for up to five years after the IPO in connection with our products and services. GE also granted us the right to use GE, General Electric and GE Capital in the corporate names of our subsidiaries until the earlier of twelve months after the date on which GE owns less than 20% of our outstanding common stock and May 24, 2009. When our right to use the GE brand name and logo expires, we may not be able to maintain or enjoy comparable name recognition or status under our new brand. In addition, insurance regulators in the U.S. and the other countries where we do business could require us to accelerate the transition to our independent brand. If we are unable to successfully manage the transition of our business to our new brand, our reputation among our independent sales intermediaries, customers and employees could be adversely affected.

Our historical and pro forma financial information is not necessarily representative of the results we would have achieved as a stand-alone company and may not be a reliable indicator of our future results.

The historical and pro forma financial information included in this prospectus does not reflect the financial condition, results of operations or cash flows we would have achieved as a stand-alone company during the periods presented or those we will achieve in the future. This is primarily a result of the following factors:

Our historical financial information reflects certain businesses that were not included in our company following the completion of our corporate organization and the IPO. For a description of the components of our historical financial information, see Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information and our financial statements included elsewhere in this prospectus;

Our historical and pro forma financial results reflect allocations of corporate expenses from GE. Those allocations may be different from the comparable expenses we would have incurred had we operated as a stand-alone company;

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Significant changes in our cost structure, management, financing and business operations have occurred as a result of our separation from GE. As a result, the costs reflected in our historical and pro forma financial statements may not represent our costs in future periods with respect to reduced economies of scale; stand-alone costs for services currently provided by GE; marketing and legal entity transition expenses related to building a company brand identity separate from GE; the need for additional personnel to perform services previously provided by GE; and the legal, accounting, compliance and other costs associated with being a public company with listed equity. See [The terms of our arrangements with GE may be more favorable than we would be able to obtain from an unaffiliated third party. We may be unable to replace the services GE provides us in a timely manner or on comparable terms;](#)

Our separation from GE and the adoption of our new brand may have an adverse effect on our relationships with distributors, customers, employees and regulators and government officials, which could result in reduced sales, increased policyholder terminations and withdrawals, increased regulatory scrutiny and disruption to our business operations;

Under some of our agreements, our separation from GE allows the other party to the agreement to terminate the agreement pursuant to a change of control provision, which may be triggered when GE's ownership of our company decreases to less than 50%. If the other party to any of these agreements does not wish to continue the agreement, then we may be required to terminate or modify our existing agreement or seek alternative arrangements, which could result in reduced sales, increased costs or other disruptions to our business; and

The pro forma financial information presented in this prospectus gives effect to several significant transactions that we implemented prior to the completion of the IPO, including the reinsurance transactions with UFLIC, as if those transactions had already been consummated. The unaudited pro forma financial information gives effect to these transactions as if each had occurred as of January 1, 2004. This pro forma financial information is based upon available information and assumptions that we believe are reasonable. However, this pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had those transactions occurred as of January 1, 2004, nor what they may be in the future.

The terms of our arrangements with GE may be more favorable than we would be able to obtain from an unaffiliated third party. We may be unable to replace the services GE provides us in a timely manner or on comparable terms.

We and GE entered into a transition services agreement and other agreements in connection with the IPO. Pursuant to these arrangements, GE and its affiliates agreed to provide us with a variety of services, including investment management, treasury, payroll and other financial services, human resources and employee benefit services, legal services, information systems and network services, and procurement and sourcing support.

We negotiated these arrangements with GE in the context of a parent-subsidary relationship. Although GE is contractually obligated to provide us with services during the terms of these arrangements, we cannot assure you that these services will be sustained at the same level after the expiration of those arrangements, or that we will be able to replace these services in a timely manner or on comparable terms. Other agreements with GE also govern the relationship between us and GE and provide for the allocation of employee benefit, tax and other liabilities and obligations attributable or related to periods or events prior to the IPO. They also contain terms and provisions that may be more favorable than terms and provisions we might have obtained in arm's-length negotiations with unaffiliated third parties. When GE ceases to provide services pursuant to those arrangements, our costs of procuring those services from third parties may increase. See [Arrangements Between GE and Our Company Relationship with GE.](#)

In addition, under the transition services agreement and other agreements, GE is obligated to provide us with certain services only so long as GE owns more than 50% of our outstanding common stock. We have been

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preparing for the transition of these services from GE to us or to third-party providers. However, we cannot assure you that we will be in position to complete the transition of those services by the time that GE ceases to own more than 50% of our outstanding common stock.

We have agreed to make payments to GE based on the projected amounts of certain tax savings, and these payments will remain fixed even if, because of insufficient taxable income or as a result of reduced tax rates, our actual tax savings are less than projected.

We entered into a tax matters agreement with GE in connection with the IPO. We refer to this agreement in this prospectus as the Tax Matters Agreement. Under the Tax Matters Agreement, we have an obligation to pay to GE a fixed amount over approximately 18 years. This fixed obligation equals 80% of the tax savings we are projected to realize (subject to a maximum amount) as a result of the tax elections made in connection with our separation from GE. The present value of our fixed obligations that we project would be approximately \$389 million. Our obligation to GE could change, however, if the facts or assumptions on which we base our projections are not borne out, and the present value of our obligations may increase as a result. However, except for specified contingent benefits and excluding interest on payments we defer, our total payments to GE will not exceed \$640 million. Although the Tax Matters Agreement generally provides for increases or reductions to our payment obligations if the current facts and assumptions underlying the projected tax savings prove inaccurate, it does not provide for reductions in our obligations if we fail to generate sufficient income to realize the projected tax savings or if our actual tax savings are reduced as a result of reduced tax rates. In these circumstances, we will remain obligated to pay to GE the fixed obligation, as initially projected or subsequently adjusted, even though it exceeds 80%, or even 100%, of the tax savings we actually realize. If the amounts we are obligated to pay to GE remain fixed while the tax savings we actually realize decline, there could be a material adverse effect on our financial condition and results of operations. See Arrangements Between GE and Our Company Relationship with GE Tax Matters Agreement.

In the event of a change in control of our company, our obligations under the Tax Matters Agreement could accelerate, and we cannot assure you that we will have sufficient funds to meet these obligations.

In some circumstances, such as a change in control over the management and policies of our company (other than through a sale of our stock by GE), the amounts we owe under the Tax Matters Agreement could accelerate, and the amounts then due and payable could be substantial. The acceleration of payments would be subject to the approval of certain state insurance regulators, and we are obligated to use our reasonable best efforts to seek these approvals. In the event these approvals are granted and the acceleration of payments does occur, we cannot assure you that we will have sufficient funds available to meet these accelerated obligations when due. If we do not have sufficient funds available, we may seek to fund these obligations from dividends or other payments from our subsidiaries, but we cannot be certain that they will have sufficient funds available or be permitted to transfer them to us. See As a holding company, we depend on the ability of our subsidiaries to transfer funds to us to pay dividends and to meet our obligations. We also may seek to fund these obligations from the proceeds of the issuance of debt or equity securities or the sale of assets, but we cannot assure you that we will be able to successfully issue any securities or consummate an asset sale.

Under the Tax Matters Agreement, GE controls certain tax returns and audits that can result in tax liability for us.

Under the Tax Matters Agreement, GE has retained control over the preparation and filing, as well as the contests, audits and amendments or other changes of certain pre-IPO federal income tax returns with respect to which we remain liable for taxes. In addition, determinations regarding the allocation to us of responsibility to pay taxes for pre-IPO periods will be made by GE in its reasonable discretion. Although the Tax Matters Agreement provides that we are not liable for taxes resulting from returns filed or matters settled by GE without our consent if the return or settlement position is found to be unreasonable, taking into account both the liability that we incur and any non-Genworth tax benefit, it is possible that we will pay more taxes than we would have paid if we were permitted to control such matters.

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GE has significant control over us and may not exercise its control in a way that benefits our public securityholders.

Upon the completion of this offering and the stock repurchase, GE will beneficially own approximately 52% of our outstanding common stock. GE has indicated that it expects, subject to market conditions, to reduce its ownership over the next two years as we transition to full independence. GE has also informed us that, in any event, it expects to reduce its interest in us to below 50% by value by May 27, 2006 (in satisfaction of a condition to a tax ruling secured in connection with the IPO). GE has adopted a formal Plan of Divestiture embodying this expectation to reduce its interest below 50% and has represented to the Internal Revenue Service, or IRS, that it will accomplish the divestiture. The adverse financial consequences to GE from a failure to effect the divestiture below 50% are significant. However, so long as GE continues to beneficially own more than 50% of our outstanding voting stock, GE generally will be able to determine the outcome of many corporate actions requiring stockholder approval. GE, in its capacity as the beneficial holder of all outstanding shares of our Class B Common Stock, also has the right to elect a majority of the members of our board of directors so long as it continues to beneficially own more than 50% of our outstanding common stock and will have the right to elect a decreasing percentage of the members of our board of directors as its beneficial ownership of our common stock decreases. In addition, until the first date on which GE owns less than 20% of our outstanding common stock, the prior affirmative vote or written consent of GE is required for the following actions (subject in each case to certain agreed exceptions):

a merger involving us or any of our subsidiaries (other than mergers involving our subsidiaries to effect acquisitions for a price less than or equal to \$700 million and acquisitions for a price less than or equal to \$1 billion at any time that GEFAHI owns 45% or less of our outstanding common stock);

acquisitions by us or our subsidiaries of the stock or assets of another business for a price (including assumed debt) in excess of \$700 million (other than acquisitions for a price less than or equal to \$1 billion at any time that GEFAHI owns 45% or less of our outstanding common stock);

dispositions by us or our subsidiaries of assets in a single transaction or a series of related transactions for a price (including assumed debt) in excess of \$700 million;

incurrence or guarantee of debt by us or our subsidiaries in excess of \$700 million outstanding at any one time or that would reasonably be expected to result in a negative change in any of our credit ratings, which does not apply to debt incurred in connection with our corporate reorganization, the \$1.9 billion of senior notes issued in June 2004, \$500 million of commercial paper, intercompany debt (within Genworth) or liabilities under certain agreed excluded transactions (provided that any debt (other than debt incurred under our five-year and 364-day revolving credit facilities to fund liabilities under funding agreements or guaranteed investment contracts issued by our subsidiaries that are regulated life insurance companies, or cash payments in connection with insurance policy surrenders and withdrawals) in excess of \$500 million outstanding at any one time incurred under those credit facilities or our commercial paper program will be subject to the \$700 million limitation described above);

issuance by us or our subsidiaries of capital stock or other securities convertible into capital stock;

dissolution, liquidation or winding up of our company; and

alteration, amendment, termination or repeal, or adoption of any provision inconsistent with, certain provisions of our certificate of incorporation or our bylaws.

GE also can exercise control over our company in certain respects pursuant to contractual rights under the master agreement and other arrangements discussed under Arrangements Between GE and Our Company.

Because GE's interests may differ from your interests, actions GE takes with respect to us, as our controlling stockholder, and with respect to those corporate actions requiring its prior affirmative written consent described above, may not be favorable to you.

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We derive a significant portion of the premiums in our payment protection insurance business from transactions with GE.

For the years ended December 31, 2004, 2003 and 2002, GE's consumer finance division and other related GE entities accounted for 42%, 19% and 14% of our payment protection insurance gross written premiums, respectively. In early 2004, we entered into a five-year agreement, subject to certain early termination provisions, that extends our relationship with GE's consumer finance division and provides us with the right to be the exclusive provider of payment protection insurance in Europe for GE's consumer finance operations in jurisdictions where we offer these products. However, if GE determines not to offer payment protection insurance, we may not be able to replace those revenues on a timely basis, and our financial condition and results of operations could suffer. See Business Protection Products Payment protection insurance.

If GE engages in the same type of business we conduct, our ability to successfully operate and expand our business may be hampered.

Our certificate of incorporation provides that, subject to any contractual provision to the contrary, GE will have no obligation to refrain from:

engaging in the same or similar business activities or lines of business as us; or

doing business with, or in competition with, any of our clients, customers or vendors.

GE is a diversified technology and services company with significant financial services businesses, including consumer finance, asset management and insurance activities. GE is engaged in the marketing of supplemental life insurance, including accidental death and dismemberment coverage and in the marketing and underwriting of dental and vision insurance, medical stop-loss insurance and primary property and casualty insurance. In addition, GE operates a significant reinsurance business, including life reinsurance, a life insurance business in the U.K. and a savings and pension business in France. Because of GE's significant financial resources, GE could have a significant competitive advantage over us should it decide to engage in businesses that compete with any of the businesses we conduct.

GE has generally agreed not to use the GE mark or the GE monogram or the name General Electric until May 24, 2009 in connection with the marketing or underwriting on a primary basis of life insurance, long-term care insurance, annuities, or group life and health insurance in the U.S., or of auto insurance products in Mexico, and the underwriting or issuing of mortgage insurance products anywhere in the world. GE's agreement to restrict the use of its brand will terminate earlier upon the occurrence of certain events, including termination of our transitional trademark license agreement with GE and our discontinuation of the use of the GE mark or the GE monogram. In addition, GE Consumer Finance, the consumer finance division of GE, has generally agreed to distribute on an exclusive basis our payment protection insurance products in certain European countries for five years, unless earlier terminated. See Business Protection Products Payment protection insurance.

Conflicts of interest may arise between us and GE that could be resolved in a manner unfavorable to us.

Questions relating to conflicts of interest may arise between us and GE in a number of areas relating to our past and ongoing relationships. Five of our directors were designated to our board of directors by GE. One of these directors is both an officer and director of GE, and the other four of these directors are also officers of GE. These directors and a number of our officers own substantial amounts of GE stock and options to purchase GE stock, and all of them participate in GE pension plans. Ownership interests of our directors or officers in GE shares, or service as a director or officer of both our company and GE, could give rise to potential conflicts of interest when a director or officer is faced with a

decision that could have different implications for the two companies. These potential conflicts could arise, for example, over matters such as the desirability of an acquisition opportunity, employee retention or recruiting, or our dividend policy.

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The corporate opportunity policy set forth in our certificate of incorporation addresses potential conflicts of interest between our company, on the one hand, and GE and its officers and directors who are directors of our company, on the other hand. Although these provisions are designed to resolve conflicts between us and GE fairly, we cannot assure you that any conflicts will be so resolved. The principles for resolving such potential conflicts of interest are described under [Description of Capital Stock](#) [Provisions of Our Certificate of Incorporation Relating to Related-Party Transactions and Corporate Opportunities](#).

Risks Relating to This Offering

Future sales of a substantial number of shares of our common stock may depress the price of our shares.

If our stockholders sell a large number of shares of our common stock, or if we issue a large number of shares of our common stock in connection with future acquisitions, financings, or other circumstances, the market price of shares of our common stock could decline significantly. Moreover, the perception in the public market that our stockholders might sell shares of our common stock could depress the market price of those shares.

GE has indicated that it expects, subject to market conditions, to reduce its ownership in us over the next two years as we transition to full independence. As a result, subject to the lock-up arrangements described below, GE could sell all or a substantial portion of the remaining interest in our common stock in the near future. See [Shares Eligible for Future Sale](#).

All the shares sold in this offering will be freely tradable without restriction, except for shares owned by any of our affiliates, including GE. Immediately after the completion of this offering and the stock repurchase, the public market for our common stock will include 227.0 million shares of Class A Common Stock. In addition, we have registered 38.0 million shares of Class A Common Stock, which are reserved for issuance under our employee benefit plans. These shares may be sold in the public market upon issuance, subject to restrictions under securities laws applicable to resales by affiliates. In addition, in connection with the IPO, we granted GE demand and piggyback registration rights with respect to the shares of our common stock it will continue to hold following completion of this offering. GE may exercise its demand and piggyback registration rights, and any shares so registered will be freely tradable in the public market, except for shares acquired by any of our affiliates. See [Arrangements Between GE and Our Company](#) [Relationship with GE](#) [Registration Rights Agreement](#) and [Shares Eligible for Future Sale](#).

We, GEFAHI and our directors and executive officers have entered into lock-up agreements in which they have agreed that they will not sell, directly or indirectly, any common stock for a period of 180 days, in the case of GEFAHI, or 90 days, in the case of our directors and executive officers, from the date of this prospectus (subject to certain exceptions) without the prior written consent of Morgan Stanley & Co. Incorporated. See [Shares Eligible for Future Sale](#).

The price of our common stock may be volatile and may be affected by market conditions beyond our control.

Our share price is likely to fluctuate in the future because of the volatility of the stock market in general and as a result of a variety of other factors, many of which are beyond our control, including:

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quarterly variations in actual or anticipated results of our operations (including for individual products);

interest rate fluctuations;

changes in financial estimates by securities analysts, our failure to meet the expectations of securities analysts and investors or our failure to achieve any forward-looking expectations that we may have previously announced;

actions or announcements by our competitors;

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regulatory actions relating to our company, other insurance companies or the insurance industry generally;

changes in the market outlook for the insurance industry;

departure of our key personnel; and

future sales of our common stock.

The stock market has recently experienced extreme price and volume fluctuations. The market prices of securities of insurance and financial services companies have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. These market fluctuations could result in extreme volatility in the price of shares of our common stock, which could cause a decline in the value of your investment. You should also be aware that price volatility may be greater if the public float and trading volume of shares of our common stock is low.

In addition, the price of our Class A Common Stock may be adversely affected by the market for the Equity Units. For example, the price of our Class A Common Stock may become volatile and depressed by investors' anticipation of the potential distribution into the market of substantial additional amounts of our Class A Common Stock upon the maturity of the Equity Units, by those investors who view the Equity Units as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that may develop involving the Equity Units and/or our Class A Common Stock.

Applicable laws, provisions of our certificate of incorporation and by-laws and our Tax Matters Agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests.

Applicable laws, provisions of our certificate of incorporation and by-laws and our Tax Matters Agreement may delay, deter, prevent or render more difficult a takeover attempt that our stockholders might consider in their best interests. For example, they may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Various states and non-U.S. jurisdictions in which our insurance companies are domiciled or deemed domiciled must approve any acquisition of or change in control of those insurance companies. Under most states' statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company. These regulatory restrictions may delay, deter or prevent a potential merger or sale of our company, even if our board of directors decides that it is in the best interests of stockholders for us to merge or be sold. These restrictions also may delay sales by us or acquisitions by third parties of our subsidiaries.

Section 203 of the Delaware General Corporation Law may affect the ability of an interested stockholder to engage in certain business combinations, including mergers, consolidation or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an interested stockholder. An interested stockholder is defined to include persons owning directly or indirectly 15% or more of the outstanding voting stock of a corporation. However, our certificate of incorporation provides that we will not be governed by Section 203 of the Delaware General Corporation Law until GE reduces its ownership interest in us to less than 15% of our outstanding common stock.

Our certificate of incorporation and by-laws include provisions that may have anti-takeover effects and may delay, deter or prevent a takeover attempt that our stockholders might consider in their best interests. For example, our certificate of incorporation and by-laws:

permit our board of directors to issue one or more series of preferred stock;

limit the ability of stockholders to remove directors;

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limit the ability of stockholders to fill vacancies on our board of directors;

limit the ability of stockholders to call special meetings of stockholders and take action by written consent; and

impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings.

Under our Tax Matters Agreement with GE, if any person or group of persons other than GE or its affiliates gains the power to direct the management and policies of our company (other than through a sale of our stock by GE), we could become obligated immediately to pay to GE the total present value of all tax benefit payments due to GE under the agreement from the time of the change in control until the end of the 25-year term of the agreement. We currently project this amount to be \$389 million. Similarly, if any person or group of persons other than us or our affiliates gains effective control of one of our subsidiaries (other than through a sale of our stock by GE), we could become obligated to pay to GE the total present value of all such payments due to GE allocable to that subsidiary, unless the subsidiary assumes the obligation to pay these future amounts under the Tax Matters Agreement and certain conditions are met. The acceleration of payments would be subject to the approval of certain state insurance regulators, and we are obligated to use our reasonable best efforts to seek these approvals. This feature of the agreement could adversely affect a potential merger or sale of our company. It could also limit our flexibility to dispose of one or more of our subsidiaries, with adverse implications for any business strategy dependent on such dispositions. See Arrangements Between GE and Our Company Relationship with GE Tax Matters Agreement.

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Forward-Looking Statements

Some of the statements under Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus include 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 include, but 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, many of which are beyond our control. We believe that these factors include, but are not limited to, those described under Risk Factors and elsewhere in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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We will not receive any proceeds from the sale by the selling stockholder of Class A Common Stock in this offering.

Price Range of Common Stock

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol GNW. The following table sets forth the high and low intraday sales prices per share of our Class A Common Stock, as reported by the New York Stock Exchange, since the IPO for the periods indicated.

	<u>High</u>	<u>Low</u>
2004		
Second Quarter (from May 25, 2004)	\$ 23.04	\$ 18.75
Third Quarter	23.99	20.75
Fourth Quarter	27.84	22.77
2005		
First Quarter (through March 23, 2005)	29.80	25.72

The last reported sale price of our Class A Common Stock on the New York Stock Exchange on March 23, 2005 was \$26.75 per share.

As of March 1, 2005, we had 41 holders of record of our Class A Common Stock.

All the shares of Class B Common Stock are owned by GEFAHI, and there is no public market for these shares.

Dividend Policy

Since the IPO, we declared quarterly dividends of \$0.065 per share of common stock on September 8, 2004 and December 1, 2004 and paid those dividends on October 27, 2004 and January 27, 2005, respectively. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant.

We are a holding company and have no direct operations. As a result, our ability to pay dividends in the future will depend on receiving dividends from our subsidiaries. Our insurance subsidiaries are subject to the laws of the jurisdictions in which they are domiciled and licensed and consequently are limited in the amount of dividends that they can pay. See Regulation.

Table of Contents**Capitalization**

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2004 on an actual basis and as adjusted to give effect to the repurchase of \$500 million of our shares of Class B Common Stock concurrently with the closing of this offering. This offering will not have an impact on the amounts shown in this table (except for the reclassification of issued and outstanding shares from Class B Common Stock to Class A Common Stock).

You should read this information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

(Dollar amounts in millions)	December 31, 2004	
	Actual	As Adjusted
Cash and cash equivalents	\$ 1,392	\$ 892
Borrowings and other obligations:		
Short-term borrowings	\$ 559	\$ 559
Long-term borrowings:		
Yen Notes	547	547
Senior Notes	1,895	1,895
Total long-term borrowings	2,442	2,442
Non-recourse funding obligations(1)	900	900
Borrowings related to securitization entities(2)	849	849
3.84% senior notes due 2009 underlying Equity Units(3)	600	600
Series A Preferred Stock, mandatorily redeemable, liquidation preference \$50 per share	100	100
Total borrowings and other obligations	5,450	5,450
Stockholders' interest:		
Class A Common Stock, \$0.001 par value; 1.5 billion shares authorized; 146.5 million shares issued and outstanding, actual; 227.0 million shares issued and outstanding, as adjusted		
Class B Common Stock, \$0.001 par value; 700 million shares authorized; 343.1 million shares issued and outstanding, actual; 262.6 million shares issued and outstanding (including 19.4 million shares held in treasury), as adjusted		
Additional paid-in capital	10,612	10,612
Total paid-in capital	10,612	10,612
Accumulated nonowner changes in stockholders' interest	1,609	1,609
Retained earnings	645	645
Treasury stock, at cost		(500)
Total stockholders' interest	12,866	12,366
Total capitalization	\$ 18,316	\$ 17,816

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- (1) For a description of the non-recourse funding obligations, see Description of Certain Indebtedness Non-recourse Funding Obligations.
 - (2) Reflects borrowings associated with certain securitization entities that we were required to include in our financial statements upon adoption of FASB Interpretation 46, *Consolidation of Variable Interest Entities*. Upon its adoption, GE Capital, of which we are an indirect subsidiary, was required to consolidate the funding conduit it sponsored. As a result, assets and liabilities of certain previously off-balance sheet securitization entities were required to be included in our financial statements because the funding conduit no longer qualified as a third party. For more information regarding these arrangements, see Management's Discussion and Analysis of Financial Condition and Results of Operations Off-balance Sheet Transactions.
 - (3) Represents notes forming part of the Equity Units. For a description of the terms of our Equity Units, see Description of Equity Units.

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Selected Historical and Pro Forma Financial Information

The following table sets forth selected historical and pro forma financial information. The selected historical financial information as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002 has been derived from our financial statements, which have been audited by KPMG LLP and are included elsewhere in this prospectus. The selected pro forma financial information for the year ended December 31, 2004 is unaudited and has been derived from our financial statements. You should read this information in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations, our financial statements, the related notes and the accompanying independent registered public accounting firm's report (which refers to a change in accounting for certain nontraditional long-duration contracts and for separate accounts in 2004, variable interest entities in 2003 and goodwill and other intangible assets in 2002), which are included elsewhere in this prospectus.

In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, \$600 million of our Equity Units, \$100 million of our Series A Preferred Stock, a \$2.4 billion note and the \$550 million Contingent Note. Shortly after the completion of the IPO, we refinanced the \$2.4 billion note with the proceeds of \$1.9 billion of senior notes and \$500 million of commercial paper.

We have prepared our financial statements as if Genworth had been in existence throughout all relevant periods. Our historical financial statements include all businesses that were owned by GEFAHI, including those that were not transferred to us, as well as the other insurance businesses that we acquired from other GE subsidiaries, each in connection with our corporate reorganization.

Prior to the completion of the IPO, we entered into several significant reinsurance transactions with UFLIC, an indirect, wholly-owned subsidiary of GE. As part of these transactions, we ceded to UFLIC, effective as of January 1, 2004, policy obligations under our structured settlement contracts, which had reserves of \$12.0 billion, and our variable annuity contracts, which had general account reserves of \$2.8 billion and separate account reserves of \$7.9 billion, each as of December 31, 2003. These contracts represent substantially all of our contracts that were in force as of December 31, 2003 for these products. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies that we reinsured from Travelers, which had reserves of \$1.5 billion, as of December 31, 2003. In the aggregate, these blocks of business did not meet our target return thresholds, and although we remain liable under these contracts and policies as the ceding insurer, the reinsurance transactions have the effect of transferring the financial results of the reinsured blocks to UFLIC. In addition, as part of the reinsurance transactions, UFLIC ceded to us substantially all of its in-force blocks of Medicare supplement insurance. As of December 31, 2003, these blocks of business had aggregate reserves of \$19 million.

The unaudited pro forma financial information set forth below reflects our historical financial information, as adjusted to give effect to the transactions described below, as if each had occurred as of January 1, 2004. The following transactions are reflected in the pro forma financial information:

the removal of certain businesses of GEFAHI that were not transferred to us in connection with our corporate reorganization;

the reinsurance transactions with UFLIC, including a capital contribution of \$1.836 billion to UFLIC;

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the issuance of equity and debt securities to GEFAHI in exchange for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization;

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the issuance and sale of \$1.9 billion aggregate principal amount of senior notes and \$500 million of commercial paper; and

the other adjustments described below in the notes to the unaudited pro forma financial information.

The unaudited pro forma financial information below is based upon available information and assumptions that we believe are reasonable. The unaudited pro forma financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations would have been had the transactions described above occurred as of January 1, 2004. The unaudited pro forma financial information also should not be considered representative of our future results of operations.

In addition to the pro forma adjustments to our historical statement of earnings, various other factors will have an effect on our financial condition and results of operations, including those discussed under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

(Amounts in millions, except per share amounts)	Historical					Pro forma
	Years ended December 31,					Year ended
	2004	2003(1)	2002	2001	2000(2)	December 31, 2004
Statement of Earnings Information						
Revenues:						
Premiums	\$ 6,559	\$ 6,707	\$ 6,107	\$ 6,012	\$ 5,233	\$ 6,388
Net investment income	3,648	4,051	3,979	3,895	3,678	3,160
Net realized investment gains	26	10	204	201	262	23
Policy fees and other income	824	915	939	993	1,053	664
Total revenues	11,057	11,683	11,229	11,101	10,226	10,235
Benefits and expenses:						
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,474	3,586	4,340
Interest credited	1,432	1,624	1,645	1,620	1,456	1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	1,916	1,808	1,823	1,813	1,657
Amortization of deferred acquisition costs and intangibles(3)	1,154	1,351	1,221	1,237	1,394	1,052
Interest expense	217	140	124	126	126	243
Total benefits and expenses	9,419	10,301	9,438	9,280	8,375	8,611
Earnings from continuing operations before income taxes	1,638	1,382	1,791	1,821	1,851	1,624
Provision for income taxes	493	413	411	590	576	494
Net earnings from continuing operations	\$ 1,145	\$ 969	\$ 1,380	\$ 1,231	\$ 1,275	\$ 1,130(4)
Net earnings from continuing operations per share(5):						
Basic	\$ 2.34	\$ 1.98	\$ 2.82			\$ 2.31
Diluted	\$ 2.33	\$ 1.98	\$ 2.82			\$ 2.30

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Shares outstanding(5):						
Basic	489.5	489.5	489.5			489.5
Diluted	490.5	489.5	489.5			490.5
Selected Segment Information						
Total revenues:						
Protection	\$ 6,064	\$ 6,143	\$ 5,605	\$ 5,443	\$ 4,917	\$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	3,721	3,137	2,891
Mortgage Insurance	1,090	982	946	965	895	1,090
Affinity(6)	218	566	588	687	817	
Corporate and Other	324	189	334	285	460	319
Total	\$ 11,057	\$ 11,683	\$ 11,229	\$ 11,101	\$ 10,226	\$ 10,235
Net earnings (loss) from continuing operations:						
Protection	\$ 528	\$ 487	\$ 554	\$ 538	\$ 492	\$ 527
Retirement Income and Investments	153	151	186	215	250	148
Mortgage Insurance	426	369	451	428	414	426
Affinity(6)	(14)	16	(3)	24	(13)	
Corporate and Other	52	(54)	192	26	132	29
Total	\$ 1,145	\$ 969	\$ 1,380	\$ 1,231	\$ 1,275	\$ 1,130

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(Dollar amounts in millions)	December 31,				
	2004	2003(1)	2002	2001	2000(2)
Statement of Financial Position Information					
Total investments	\$ 65,747	\$ 78,693	\$ 72,080	\$ 62,977	\$ 54,978
All other assets	38,131	24,738	45,277	41,021	44,598
Total assets	\$ 103,878	\$ 103,431	\$ 117,357	\$ 103,998	\$ 99,576
Policyholder liabilities	\$ 69,262	\$ 66,545	\$ 63,195	\$ 55,900	\$ 48,291
Non-recourse funding obligations(7)	900	600			
Short-term borrowings	559	2,239	1,850	1,752	2,258
Long-term borrowings	2,442	529	472	622	175
All other liabilities	17,849	17,718	35,088	31,559	35,865
Total liabilities	\$ 91,012	\$ 87,631	\$ 100,605	\$ 89,833	\$ 86,589
Accumulated nonowner changes in stockholders' interest	\$ 1,609	\$ 1,672	\$ 835	\$ (664)	\$ (424)
Total stockholders' interest	12,866	15,800	16,752	14,165	12,987
U.S. Statutory Information(8)					
Statutory capital and surplus	6,439	7,021	7,207	7,940	7,119
Asset valuation reserve	427	413	390	477	497

- (1) On August 29, 2003, we sold our Japanese life insurance and domestic auto and homeowners' insurance businesses for aggregate cash proceeds of approximately \$2.1 billion, consisting of \$1.6 billion paid to us and \$0.5 billion paid to other GE affiliates, plus pre-closing dividends. See note 5 to our financial statements, included elsewhere in this prospectus.
- (2) During 2000, we consummated three significant business combinations:
- In July 2000, we reinsured 90% of Travelers' long-term care insurance portfolio and acquired certain related assets for \$411 million;
 - In April 2000, we acquired Phoenix American Life Insurance Company for \$284 million; and
 - Effective March 2000, we acquired the insurance policies and related assets of Toho Mutual Life Insurance Company. Our Japanese life insurance business assumed \$21.6 billion of policyholder liabilities and \$0.3 billion of accounts payable and accrued expenses and acquired \$20.3 billion in cash, investments and other tangible assets through this transaction. We sold this business on August 29, 2003, and its results have been presented as discontinued operations.
- (3) As of January 1, 2002, we adopted Statement of Financial Accounting Standards 142, *Goodwill and Other Intangible Assets*, and, in accordance with its provisions, discontinued amortization of goodwill. Goodwill amortization was \$84 million and \$70 million for the years ended December 31, 2001 and 2000, respectively, excluding goodwill amortization included in discontinued operations.
- (4) Pro forma net operating earnings for the year ended December 31, 2004 were \$1,044 million. We define pro forma net operating earnings as pro forma net earnings from continuing operations, excluding pro forma after-tax net realized investment gains and losses (which can fluctuate significantly from period to period), changes in accounting principles and non-recurring, infrequent or unusual items. There were no non-recurring, infrequent or unusual items excluded from pro forma net operating earnings for the year ended December 31, 2004, other than an IPO-related net tax benefit and a gain related to our waiver of contractual rights under an outsourcing services agreement with GE's global business processing operation, 60% of which was sold in the fourth quarter of 2004. We believe that analysis of pro forma net operating earnings enhances understanding and comparability of performance by highlighting underlying business activity and profitability drivers. However, pro forma net operating earnings should not be viewed as a substitute for GAAP net earnings. In addition, our definition of pro forma net operating earnings may differ from the definitions used by other companies. The following table provides a reconciliation of pro forma net operating earnings (as defined above) to pro forma net earnings from continuing operations:

(Dollar amounts in millions)	Year ended December 31, 2004
Pro forma net earnings from continuing operations	\$ 1,130
Pro forma net realized (gains) on investments, net of taxes	(15)

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Net tax benefit related to initial public offering	(46)
Gain on outsourcing services agreement, net of taxes	(25)
	<hr/>
Pro forma net operating earnings	\$ 1,044
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- (5) Basic and diluted net earnings from continuing operations per share for the year ended December 31, 2004 are calculated by dividing the net earnings from continuing operations by 489.5 million weighted average basic shares outstanding and by 490.5 million weighted average diluted shares outstanding, respectively. Basic and diluted net earnings from continuing operations per share for the years ending December 31, 2003 and 2002 were calculated by dividing net earnings from continuing operations by 489.5 million pro forma shares outstanding. The number of shares used in our calculation of diluted earnings per share increased in 2004 due to additional shares of Class A Common Stock issuable under stock options and restricted stock units and is calculated using the treasury method.
- (6) Reflects the results of businesses that were owned by GEFAHI but were not transferred to us in connection with our corporate reorganization, including (a) the Partnership Marketing Group business, (b) an institutional asset management business, and (c) several other small businesses that were not part of our core ongoing business. See Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Our historical and pro forma financial information.
- (7) For a description of the non-recourse funding obligations, see Description of Indebtedness Non-recourse Funding Obligations.
- (8) Includes statutory capital and surplus and statutorily required contingency reserves held by our U.S. mortgage insurance subsidiaries. In December 2004, our U.S. mortgage insurance business released \$700 million of statutory contingency reserves and paid that amount as a dividend to the holding company of that business.

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Year ended December 31, 2004					
(Amounts in millions, except per share amounts)	Historical	Pro forma	Pro forma	Pro	Pro forma
		adjustments	adjustments	adjustments	
		excluded	reinsurance	capital	
		assets and	transactions	structure	Pro forma
		liabilities			
Revenues:					
Premiums	\$ 6,559	\$ (80)(a)	\$ (91)(d)	\$	\$ 6,388
Net investment income	3,648	(27)(a)	(431)(d)		3,160
		(1)(b)	(29)(e)		
Net realized investment gains	26	(3)(c)			23
Policy fees and other income	824	(103)(a)	(57)(d)		664
Total revenues	11,057	(214)	(608)		10,235
Benefits and expenses:					
Benefits and other changes in policy reserves	4,804	(71)(a)	(393)(d)		4,340
Interest credited	1,432		(113)(d)		1,319
Underwriting, acquisition, and insurance expenses, net of deferrals	1,812	(117)(a)	(38)(d)		1,657
Amortization of deferred acquisition costs and intangibles	1,154	(46)(a)	(56)(d)		1,052
Interest expense	217			(40)(f)	243
				12 (g)	
				9 (h)	
				45 (i)	
Total benefits and expenses	9,419	(234)	(600)	26	8,611
Earnings from continuing operations before income taxes					
	1,638	20	(8)	(26)	1,624
Provision for income taxes	493	14 (a)	(4)(d)	(8)(j)	494
		(1)(c)			
Net earnings from continuing operations	\$ 1,145	\$ 7	\$ (4)	\$ (18)	\$ 1,130
Net earnings from continuing operations per share:					
Basic	\$ 2.34				\$ 2.31
Diluted	\$ 2.33				\$ 2.30
Number of shares outstanding:					

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Basic	489.5	489.5
Diluted	490.5	490.5

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- (a) Reflects adjustments to exclude amounts included in our historical earnings relating to results of operations of businesses (formerly reported in our Affinity segment) that were not transferred to us. The exclusion of these businesses from our historical financial statements was accounted for as a pre-IPO dividend to GEFAHI in 2004.
- (b) Reflects adjustments to exclude amounts included in our historical earnings relating to results of operations of certain investment partnerships that were not transferred to us. The exclusion of these partnerships from our historical financial statements was accounted for as a pre-IPO dividend to GEFAHI in 2004.
- (c) Reflects adjustments to exclude amounts included in our historical earnings relating to net realized investment (gains) losses and related income tax benefits, attributable to sales of Affinity segment assets. In our historical financial statements, net realized (gains) losses are reflected in the Corporate and Other segment.
- (d) Reflects adjustments to record the effects of the reinsurance transactions we entered into with, and the related contribution we made to, UFLIC, an indirect subsidiary of GE. As part of these transactions, effective as of January 1, 2004, we ceded to UFLIC policy obligations under our structured settlement contracts and our variable annuity contracts. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies. As part of the reinsurance transactions, UFLIC ceded to us substantially all of its in-force blocks of Medicare supplement insurance. Prior to the completion of our corporate reorganization on May 24, 2004, the results of operation of UFLIC were included in our historical results. The unaudited pro forma earnings information gives effect to the reinsurance transactions as if each occurred as of January 1, 2004 and excludes the effects of all ceded reinsured contracts that were issued before January 1, 2004. We have continued to sell variable annuities and structured settlements after completion of the reinsurance transactions and we are retaining that business for our own account, subject to third party reinsurance in the ordinary course of business.

Under the reinsurance transactions, we receive an expense allowance to reimburse us for costs we incur to service the reinsured blocks. Actual costs and expense allowance amounts will be determined by expense studies to be conducted periodically. The pro forma adjustments have been prepared assuming that actual costs incurred during the pro forma periods, as determined under our historical cost structure and allocation methods, were reimbursed by an expense allowance.

- (e) Concurrently with the reinsurance transactions described in note (d), we contributed \$1.836 billion of capital to UFLIC, which primarily represented the excess statutory capital in our insurance subsidiaries, after giving effect to the reinsurance transactions. Because a significant portion of the assets contributed to UFLIC were not owned for the entire period from January 1, 2004 until the date of the capital contribution, the pro forma adjustments to reduce net investment income and net realized investment gains related to the transferred assets were based upon a proportional allocation of investment income from the investment assets historically identified as (1) supporting the blocks of business reinsured in the reinsurance transactions, and (2) representing surplus of the subsidiaries providing assets that were contributed to UFLIC.
- (f) Reflects adjustments to exclude the interest expense included in our historical earnings, adjusted for qualified hedge effects, on commercial paper issued by GEFAHI of \$1,696 million and short-term borrowings from GE Capital of \$800 million. The commercial paper, short-term borrowings and related derivative contracts liabilities were not transferred to us in connection with our corporate reorganization.
- (g) Reflects adjustments to record (1) interest expense and contract adjustment payments on \$600 million of our Equity Units and (2) dividends payable on \$100 million of our mandatorily redeemable Series A Cumulative Preferred Stock. The senior notes forming part of the Equity Units accrue interest at the rate of 3.84% per year, and the purchase contracts forming part of the Equity Units accrue contract adjustment payments at the rate of 2.16% per year. The Series A Preferred Stock accrues dividends at the rate of 5.25% per year, which is recorded as interest expense. Both the Equity Units and the Series A Preferred Stock were issued to

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GEFAHI on May 24, 2004 in connection with our corporate reorganization, and the interest expense and contract adjustment payments on these securities are included in our historical financial results from that date. GEFAHI sold all the Equity Units and Series A Preferred Stock in public offerings concurrent with our IPO.

- (h) Reflects adjustments to record interest expense on our obligation under the Tax Matters Agreement with GE. Interest accretion on the Tax Matters Agreement is reflected in our historical financial results from May 24, 2004, the date of our corporate reorganization, at the rate of 5.72% per year.

- (i) Reflects adjustments to record interest expense, net of the impact of hedging arrangements, on long-term borrowings pursuant to \$1.9 billion aggregate principal amount of senior notes and \$500 million of commercial paper. The effective interest rates for the senior notes (giving effect to hedging arrangements) are as follows: 3.53% per year for the \$500 million of 2007 notes, 4.48% per year for the \$500 million of 2009 notes, 5.51% per year for the \$600 million of 2014 notes, and 6.35% per year for the \$300 million of 2034 notes. The weighted-average interest rate on commercial paper outstanding as of December 31, 2004 was 2.38%; the pro forma adjustments have been prepared using the rate assumed at the time of our corporate reorganization, which was 1.07%. Interest expense on these borrowings is included in our historical financial results from the issuance of the senior notes on June 15, 2004 and the commercial paper on June 9, 2004.

- (j) Reflects an adjustment to record the tax impact on other pro forma earnings adjustments at a rate of 35%.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited and unaudited historical financial statements and related notes as well as our unaudited pro forma financial statements included elsewhere in this prospectus. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global political, economic, business, competitive, market and regulatory factors, many of which are beyond our control. See *Forward-Looking Statements*.*

Overview

Our business

We are a leading insurance company in the U.S., with an expanding international presence. We have three operating segments: Protection, Retirement Income and Investments, and Mortgage Insurance.

Protection. We offer U.S. customers life insurance, long-term care insurance and, primarily for companies with fewer than 1,000 employees, group life and health insurance. In Europe, we offer payment protection insurance, which helps consumers meet their payment obligations in the event of illness, involuntary unemployment, disability or death. For the year ended December 31, 2004, our Protection segment had pro forma segment net earnings of \$527 million.

Retirement Income and Investments. We offer U.S. customers fixed and variable deferred annuities, income annuities, variable life insurance, asset management and specialized products, including guaranteed investment contracts, funding agreements and structured settlements. For the year ended December 31, 2004, our Retirement Income and Investments segment had pro forma segment net earnings of \$148 million.

Mortgage Insurance. In the U.S., Canada, Australia, New Zealand and Europe, we offer mortgage insurance products that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages. For the year ended December 31, 2004, our Mortgage Insurance segment had pro forma segment net earnings of \$426 million.

We also have a Corporate and Other segment, which consists primarily of unallocated corporate income and expenses (including amounts accrued in settlement of class action lawsuits), the results of small, non-core businesses that are managed outside our operating segments, most of our interest and other financing expenses and net realized investment gains (losses). For the year ended December 31, 2004, our Corporate and Other segment had pro forma segment net earnings of \$29 million.

Our corporate reorganization

We were incorporated in Delaware on October 23, 2003 in preparation for our corporate reorganization and the IPO. In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. GEFAHI is an indirect subsidiary of GE and prior to the completion of the IPO, was a holding company for a group of companies that provide life insurance, long-term care insurance, group life and health insurance,

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annuities and other investment products and U.S. mortgage insurance. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, a Bermuda reinsurer and mortgage contract underwriting. In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, \$600 million of our Equity Units, \$100 million of our Series A Preferred Stock, a \$2.4 billion short-term note and the \$550 million Contingent Note. We refinanced the \$2.4 billion note with \$1.9 billion of senior notes and \$500 million of commercial paper shortly after the IPO, and we repaid the Contingent Note in December 2004.

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Our historical and pro forma financial information

The historical financial information has been derived from our financial statements, which have been prepared as if Genworth had been in existence throughout all relevant periods. Our historical financial information and statements include all businesses that were owned by GEFAHI, including those that were not transferred to us in connection with our corporate reorganization, as well as the other insurance businesses that we acquired from other GE subsidiaries in connection with our corporate reorganization. In addition to our three operating segments and our Corporate and Other segment, our historical financial statements also include the results of (1) the Partnership Marketing Group business, which offers life and health insurance, auto club memberships and other financial products and services directly to consumers through affinity marketing arrangements with a variety of organizations, (2) an institutional asset management business owned by GEFAHI, and (3) several other small businesses owned by GEFAHI that are not part of our core ongoing business.

The Partnership Marketing Group historically included UFLIC, a subsidiary that offered life and health insurance products through affinity marketing arrangements. In connection with the IPO, GEFAHI transferred UFLIC to General Electric Capital Services, Inc., a direct wholly-owned subsidiary of GE. We did not acquire the Partnership Marketing Group business, the institutional asset management business or these other small businesses from GEFAHI, and their results are presented as a separate operating segment under the caption Affinity.

Our historical financial statements also include our Japanese life insurance and domestic auto and homeowners insurance businesses, which we sold on August 29, 2003, and which are presented in our historical financial statements as discontinued operations.

The unaudited pro forma information presented herein reflects our historical financial information, as adjusted to give effect to the transactions described under Selected Historical and Pro Forma Financial Information as if each had occurred as of January 1, 2004.

Revenues and expenses

Our revenues consist primarily of the following:

Protection. The revenues in our Protection segment consist primarily of:

net premiums earned on individual life, individual long-term care, group life and health and payment protection insurance policies;

net investment income on the separate investment portfolio held by our payment protection insurance business or allocated to this segment's other lines of business; and

policy fees and other income, including fees for mortality and surrender charges primarily from universal life insurance policies, and other administrative charges.

Retirement Income and Investments. The revenues in our Retirement Income and Investments segment consist primarily of:

net premiums earned on income annuities and structured settlements with life contingencies;

net investment income allocated to this segment; and

policy fees and other income, including surrender charges, mortality and expense charges, investment management fees and commissions.

Mortgage Insurance. The revenues in our Mortgage Insurance segment consist primarily of:

net premiums earned on mortgage insurance policies;

net investment income on the segment's separate investment portfolio; and

policy fees and other income, including fees from contract underwriting services.

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Corporate and Other. The revenues in our Corporate and Other segment consist primarily of:

net premiums, policy fees and other income from the insurance businesses in this segment;

unallocated net investment income; and

net realized investment gains (losses).

We allocate net investment income from our Corporate and Other segment to our Protection (except payment protection insurance) and Retirement Income and Investments segments using an approach based principally upon the investment portfolio established to support each of those segments' products and targeted capital levels. We do not allocate net investment income from our Corporate and Other segment to our Mortgage Insurance segment or to our payment protection insurance product within the Protection segment, because they have their own separate investment portfolios, and the net investment income from those portfolios is reflected in the Mortgage Insurance and Protection segment results. In our historical financial statements, we allocated net investment income to our Affinity segment in the same manner that we allocated these items to our Protection and Retirement Income and Investments segments.

All net realized investment gains (losses) are reflected in the Corporate and Other segment and are not reflected in the results of any of our other segments.

Our expenses consist primarily of the following:

benefits provided to policyholders and contractholders and changes in reserves;

interest credited on general account balances;

underwriting, acquisition and insurance expenses, including commissions, marketing expenses, policy and contract servicing costs, overhead and other general expenses that are not capitalized (shown net of deferrals);

amortization of deferred policy acquisition costs and other intangible assets;

interest and other financing expenses; and

income taxes.

We allocate corporate expenses to each of our operating segments based on the amount of capital allocated to that segment.

Business trends and conditions

In recent years, our business has been, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Market and economic environment

Aging U.S. population with growing retirement income needs. According to the U.S. Social Security Administration, from 1945 to 2003, U.S. life expectancy at birth increased from 62.9 years to 74.4 years for men and from 68.4 years to 79.5 years for women, respectively, and life expectancy is expected to increase further. In addition, increasing numbers of baby boomers are approaching retirement age. The U.S. Census Bureau projects that the percentage of the U.S. population aged 55 or older will increase from approximately 22% (65 million) in 2004 to more than 29% (97 million) in 2020. These increases in life expectancy and the average age of the U.S. population heighten the risk that individuals will outlive their retirement savings. In addition, approximately \$4.4 trillion of invested financial assets (25% of all U.S. invested financial assets) are held by people within 10 years of retirement and will be available to be converted to income as those people retire, and approximately \$3.3 trillion of invested financial assets are held by individuals who are under age 70 and consider themselves

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retired, in each case according to a survey conducted by SRI Consulting Business Intelligence in 2002. We believe these trends will lead to growing demand for retirement income and investment products, such as our annuities and other investment products, that help consumers accumulate assets and provide reliable retirement income.

Growing lifestyle protection gap. The aging U.S. population and a number of other factors are creating a significant lifestyle protection gap for a growing number of individuals. This gap is the result of individuals not having sufficient resources, including insurance coverage, to ensure that their future assets and income will be adequate to support their desired future lifestyle. Other factors contributing to this gap include declining individual savings rates, rising healthcare and nursing care costs, and a shifting of the burden for funding protection needs from governments and employers to individuals. Recent reductions in employer-paid benefits by many companies, coupled with uncertainty over the future of government benefit programs, underscore the potential for long-term benefit reductions from these traditional sources and the potential need for individuals to identify alternative sources of these benefits. At the same time, according to the U.S. Bureau of Economic Analysis, personal savings rates decreased from 10.8% in 1984 to 1.0% in 2004. Consumers are exposed to the rising costs of healthcare and nursing care during their retirement years, and some experts believe that many consumers are underinsured with respect to their protection needs. We expect these trends to result in increased demand for our life, long-term care and small group life and health insurance products.

Increasing opportunities for mortgage insurance internationally and in the U.S. We believe a number of factors have contributed and will contribute to the growth of mortgage insurance in Canada, Australia and the U.S., where we have significant mortgage insurance operations. These factors include increasing homeownership levels (spurred in part by government housing policies that favor homeownership and demographic factors driving demand for housing); expansion of low-down-payment mortgage loan offerings; legislative and regulatory policies that provide capital incentives for lenders to transfer the risks of low-down-payment mortgages to mortgage insurers; and expansion of secondary mortgage markets that require credit enhancements, such as mortgage insurance. We believe a number of these factors also are becoming evident in some European, Latin American, and Asian markets, where lenders increasingly are using mortgage insurance to manage the risks of their loan portfolios and to expand low-down-payment lending.

General conditions and trends affecting our businesses

Interest rate fluctuations. Fluctuations in market interest rates may have a significant effect on our sales of insurance and investment products and our margins on these products. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. In our Retirement Income and Investments and Protection segments, low market interest rates may reduce the spreads between the amounts we credit to policyholders and contractholders and the yield we earn on the investments that support these obligations. In response to the unusually low interest rates that have prevailed during the last several years, we have reduced the guaranteed minimum crediting rates on newly issued fixed annuity contracts and have reduced crediting rates on in-force contracts where permitted to do so. These actions have helped mitigate the adverse impact of low interest rates on our spreads and profitability on these products. A gradual increase in interest rates generally would have a favorable effect on the profitability of these products. However, rapidly rising interest rates also could result in reduced persistency in our spread-based retail products as contractholders shift assets into higher yielding investments.

In our Protection segment, the pricing and expected future profitability of our term life and long-term care insurance products are based in part on expected investment returns. Over time, term life and long-term care insurance products generally produce positive cash flows as customers pay periodic premiums, which we invest as we receive them. Low interest rates may reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our term life and long-term care insurance products. The impact of interest rate fluctuations on our universal life insurance products is similar to their impact on spread-based products in our Retirement Income and Investments segment.

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In our Mortgage Insurance segment, increasing interest rates in 2004 have contributed to a decrease in new mortgage originations in the U.S. and a resulting decrease in new mortgage insurance written. Our U.S. new insurance written decreased by 58% from \$67.4 billion for the year ended December 31, 2003 to \$28.1 billion for the year ended December 31, 2004 primarily because of increased interest rates. Higher interest rates in 2004 and the significant refinancing activity in 2002 and 2003 also resulted in reduced refinancing activity in 2004, which had a positive impact on U.S. flow persistency. U.S. flow persistency rates increased from 46% for the year ended December 31, 2003 to 65% for the year ended December 31, 2004, excluding the effect of a periodic payoff reconciliation on one structured transaction involving single premium mortgage insurance that today would be classified as bulk insurance. We expect that continued interest rate increases will have a favorable impact on persistency and an adverse impact on new mortgage originations and new mortgage insurance written.

Volatile equity markets. Equity market volatility may discourage purchases of separate account products, such as variable annuities and variable life insurance, that have returns linked to the performance of the equity markets and may cause some existing customers to withdraw cash values or reduce investments in those products. Equity market volatility also affects the value of the assets in our separate accounts, which, in turn, affects our earnings from fee-based products. After several years of declines, equity markets increased in 2003 and 2004, and we expect that increases or relative stability in equity markets could have a favorable impact on our sales of variable products and our earnings from those products. The potential impact of volatile equity markets on our results has been significantly reduced as a result of our reinsurance arrangements with UFLIC, pursuant to which we reinsured, effective as of January 1, 2004, substantially all of our in-force blocks of variable annuities. We retain variable annuities sold after January 1, 2004 for our own account, subject to third-party reinsurance transactions in the ordinary course of business, and therefore we bear the risk of any adverse impact of future equity market fluctuations on those annuities. In addition, fluctuations in the equity markets may affect revenues and returns from our private asset management products and services, which depend on fees related primarily to the value of assets under management.

Credit default risk. As a result of the economic downturn in 2000 through 2002 and some high-profile corporate bankruptcies and scandals, the number of companies defaulting on their debt obligations increased dramatically in 2001 and 2002. These defaults and other declines in the value of some of our investments resulted in impairment charges. Credit defaults have decreased in recent years as the economy has improved. Charges associated with impairments of investments were \$26 million, \$224 million, and \$343 million for the years ended December 31, 2004, 2003 and 2002, respectively. A weakening in the economic recovery could lead to increased credit defaults.

Investment portfolio. The yield on our investment portfolio is affected by the practice, prior to our separation from GE, of realizing investment gains through the sale of appreciated securities and other assets during a period of historically low interest rates. This strategy had been pursued to offset impairments and losses in our investment portfolio, fund consolidations and restructurings in our business and provide current income. Our gross realized gains were \$473 million and \$790 million for the years ended December 31, 2003 and 2002, respectively. This strategy has had an adverse impact on the yield on our investment portfolio and our net investment income as we typically sold higher-yielding securities and reinvested the proceeds in lower-yielding securities during periods of declining or low interest rates. The impact is most significant in the Retirement Income and Investments segment, which has a higher percentage of our fixed maturities allocated to it than to our other segments.

Since our separation from GE, our investment strategy has been to optimize investment income without relying on realized investment gains. As a result, our gross realized gains decreased to \$90 million for the year ended December 31, 2004. We also are currently experiencing a challenging interest-rate environment in which the yields that we can achieve on new investments are lower than the aggregate yield on our existing portfolio. This environment has resulted in a decline in our overall investment yield, from 6.0% for the year ended December 31, 2002 to 5.8% and 5.5% for the years ended December 31, 2003 and 2004, respectively. We seek to mitigate this decline in investment yields by continuously evaluating our asset class mix, pursuing additional

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investment classes and accepting additional credit risk when we believe that it is prudent to do so. A continued increase in prevailing interest rates also will mitigate this decline, whereas a decrease in interest rates could lead to further declines.

Globalization. Historically, we have derived a majority of our revenues and profits from our operations in the U.S. However, in recent years, our international business has grown and has had an increasing impact on our financial condition and results of operations. For the years ended December 31, 2004, 2003 and 2002, 19%, 18% and 14% of our revenues, respectively, and 29%, 26% and 12% of our net earnings from continuing operations, respectively, were generated by our international operations. These increases were largely due to growth in our international mortgage insurance business. Our payment protection insurance business also derives revenues in the countries where it offers its products. We are exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations into our financial statements. As a result, period-to-period comparability of our results of operations is affected by fluctuations in exchange rates. Our net earnings for the years ended December 31, 2004 and 2003 included approximately \$31 million and \$25 million, respectively, due to the favorable impact of changes in foreign exchange rates. Our four principal foreign currencies are the Canadian dollar, the Australian dollar, the British pound and the euro.

Ongoing operating cost reductions and efficiencies. Our underwriting, acquisition, and insurance expenses, net of deferrals, have decreased to 16% of our revenues in 2004 from 18% in 1999. We continually focus on reducing our cost base while maintaining strong service levels for our customers. We expect to accomplish this goal in each of our operating units through a wide range of cost management disciplines, including consolidating operations, using low-cost operating locations, reducing supplier costs, leveraging process improvement efforts, forming dedicated teams to identify opportunities for cost reductions and investing in new technology, particularly for web-based, digital end-to-end processes.

Developments affecting our product lines

The following business trends and conditions have had a significant impact on our products during the last three years:

Life insurance. Regulation XXX requires insurers to establish additional statutory reserves for term and universal life insurance policies with long-term premium guarantees. In response to this regulation, we increased term and universal life insurance statutory reserves, implemented reinsurance and capital management actions and increased our premium rates for term life insurance products in March 2003. This increase in premium rates has contributed to lower term life insurance sales in 2003 and 2004. Our annualized first-year premiums and deposits for term and universal life insurance products decreased by 16% from \$195 million for the year ended December 31, 2002 to \$163 million for the year ended December 31, 2003 and by 12% to \$144 million for the year ended December 31, 2004. Our pricing, reinsurance and capital management actions in response to Regulation XXX have collectively enabled us to improve our new business returns on equity, and in October 2003 and June 2004, we decreased our premium rates for term life insurance products. This decrease has led to an increase in term life insurance sales at the end of 2004. Our annualized first-year premiums for term life insurance products increased by 42% from \$19 million for the three months ended December 31, 2003 to \$27 million for the three months ended December 31, 2004, and we further decreased our premium rates for term life insurance in January 2005. We believe our recent price reductions, together with ongoing service and distribution support initiatives, will continue to lead to increased term life insurance sales over time.

Long-term care insurance. Total individual long-term care insurance premiums for in-force policies in the U.S. increased from approximately \$2.4 billion in 1997 to \$6.8 billion in 2004, according to LIMRA International. Industry-wide sales of individual long-term care insurance peaked in 2002 at approximately \$1.0 billion and decreased by 7% in 2003 and 25% in 2004. We believe this decrease was due primarily to decisions by several providers to cease offering long-term care insurance, to raise premiums on in force-policies, and/or to introduce new products with higher prices. These actions resulted in decreased purchases of long-term care insurance products and have caused some distributors to reduce their sales focus on these products. In addition,

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we have been experiencing lower lapse rates than we originally anticipated on long-term care insurance policies that we issued prior to the mid-1990s. This has adversely affected our overall claims experience on those policies. In the third quarter of 2003, we started selling our newest long-term care insurance products in selected states. These products were priced to achieve our target returns on capital and to reflect new features and benefits, trends in lapse rates, interest rates, morbidity and adverse claims experience in certain higher risk policyholder classes. Our pricing strategy for these products, along with declines in overall industry sales, have contributed to lower sales in recent periods. Our annualized first-year premiums for the long-term care business decreased by 33% from \$240 million for the year ended December 31, 2003 to \$162 million for the year ended December 31, 2004. In late fourth quarter of 2004, we began selling these products in the majority of the remaining states, and we expect there may be a similar adverse impact on sales in those states, potentially resulting in uneven sales in our long-term care business. We believe that our pricing strategy is appropriate and that over time, the long-term care insurance market will continue to expand as the result of aging demographics, increasing healthcare and nursing care costs, the uncertainty regarding government programs that currently cover these costs and the increasing public awareness of the benefits of private long-term care insurance.

On January 27, 2005 the NAIC Capital Adequacy Task Force recommended a new formula that ties the calculation of risk-based capital for long-term care insurance more closely to claims than to collected premiums, which is the current practice. The new formula is subject to approval by the NAIC. If approved, the new formula may enable us to release capital temporarily from our long-term care insurance business for use in other business lines in December 2005.

Payment protection insurance. Our payment protection insurance business has expanded as a result of our strategy to enter additional markets in Continental Europe and Ireland and to develop new relationships with distributors in those markets. However, the margins of our payment protection business in the U.K. have decreased in recent years as a result of increased pricing pressure and greater competition from captive insurance arrangements by distributors that provide payment protection insurance directly to their customers. As a result, in the third quarter of 2003, we evaluated our contractual relationships with our payment protection insurance distributors against our targeted return thresholds and decided to terminate or not to renew certain relationships that we refer to as run-off. In the aggregate, written premiums, gross of reinsurance and cancellations, in our payment protection insurance business decreased by 31% from \$2,175 million for the year ended December 31, 2003 to \$1,501 million for the year ended December 31, 2004. However, excluding run-off business, written premiums, gross of reinsurance and cancellations, increased by 21% from \$1,191 million for the year ended December 31, 2003 to \$1,441 million for the year ended December 31, 2004. Although we expect the total revenue from our payment protection business to continue to decline over the next few years as our run-off business diminishes, we believe this will not have a material impact on our operating earnings and will have a favorable effect on our returns as capital is released and redeployed into markets with potential for higher growth and returns.

Annuities. The results of our Retirement Income and Investments segment are affected primarily by interest rate fluctuations and volatile equity markets, as discussed above under Overview Business trends and conditions General conditions and trends affecting our businesses. In addition, our competitive position within many of our distribution channels depends significantly upon product features, including our crediting rates on spread-based products relative to our competitors, minimum guaranteed rates, surrender charge periods and agent commissions. We continually evaluate our competitive position based upon each of those features, and we make adjustments as appropriate to meet our target return thresholds. For example, our deposits in fixed annuities increased by 63% from \$1,069 million for the twelve months ended December 31, 2003 to \$1,741 million for the twelve months ended December 31, 2004 primarily as a result of our expanded distribution relationships with financial intermediaries and a new fixed annuity product we introduced in 2004 that incorporates flexible product features. We believe that a gradual increase in market interest rates will have a favorable impact on consumer demand for these products. We also recently introduced the Income Distribution Series of guaranteed income annuity products and riders that provide the contractholder with a guaranteed minimum income stream and an opportunity to participate in market appreciation but reduce some of the risks to insurers that generally accompany

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traditional products with guaranteed minimum income benefits. Sales of these products increased by 82% from \$142 million for the year ended December 31, 2003 to \$258 million for the year ended December 31, 2004.

Our new deposits in variable annuities decreased by 47% from \$2,102 million for the year ended December 31, 2003 to \$1,106 million for the year ended December 31, 2004. We believe this decline was primarily driven by a market shift to variable annuity products with certain guaranteed benefit features that we chose not to offer due to their risk profile.

Mortgage insurance. As discussed above under **Overview Business trends and conditions General conditions and trends affecting our businesses**, increasing interest rates in 2004 have contributed to a significant decrease in U.S. new mortgage insurance written. Our U.S. new insurance written also has been adversely affected by our actions in connection with our captive reinsurance arrangements. Starting in late 2003, we generally sought to exit or restructure a portion of our excess-of-loss risk sharing arrangements with premium cessions in excess of 25% to improve profitability. This resulted in a significant reduction in business from several of these lenders. We later re-evaluated these relationships on a case-by-case basis, assessing various factors, including ceding terms, attachment points and quality of portfolios. As a result, we reinstated or restructured some of these arrangements in a form that we believe allows us to achieve acceptable returns. For the foregoing reasons, as well as the continued popularity of simultaneous second, or 80-10-10, loans as an alternative to private mortgage insurance, our U.S. new insurance written decreased by 58% from \$67.4 billion for the year ended December 31, 2003 to \$28.1 billion for the year ended December 31, 2004. As a result of the significant U.S. refinancing activity in 2002 and 2003 and the significant expansion of our international business in recent years, as of December 31, 2004, approximately 80% of our U.S. risk in force and 72% of our international risk in force had not yet reached its anticipated highest claim frequency years, which are generally between the third and seventh year of the loan. We expect our loss experience on these loans will increase as policies continue to age.

Our international mortgage insurance business has continued to expand and has had a favorable impact on our results of operations. International new insurance written increased by 32% from \$39.2 billion for the year ended December 31, 2003 to \$51.8 billion for the year ended December 31, 2004. This increase was driven by a larger mortgage origination market in Canada and increased account penetration in both Canada and Australia, as well as growth in new insurance written in Europe and favorable foreign exchange rate movements, partially offset by a smaller mortgage origination market in Australia. We expect that the growth of our international mortgage insurance business will continue to contribute an increasing portion of this segment's total revenues and profits.

Separation from GE and related financial arrangements

GE historically has provided a variety of products and services to us, and we have provided various products and services to GE. In connection with the IPO, we entered into a transition services agreement and various other agreements with GE that, together with a number of agreements that were in effect before the IPO, govern the relationship between GE and us.

Services received from GE

Support services and corporate overhead. GE historically has provided a variety of support services for our businesses, including:

customer service, transaction processing and a variety of functional support services provided by an outsourcing provider in India that was wholly owned by GE until December 2004 and is now 40% owned by GE;

employee benefit processing and payroll administration, including relocation, travel, credit card processing and related services;

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employee training programs, including access to GE training courses;

insurance coverage under the GE insurance program;

information systems, network and related services;

leases for vehicles, equipment and facilities; and

other financial advisory services such as tax consulting, capital markets services, research and development activities, and use of trademarks and licenses.

We have reimbursed GE for the costs of providing these services to us. We paid GE a total of \$65 million, \$87 million and \$74 million for these services for the years ended December 31, 2004, 2003 and 2002, respectively.

In addition, GE historically has allocated to us a share of its corporate overhead expenses for certain services provided to us, which are not specifically billed to us, including public relations, investor relations, treasury, and internal audit services. Our total expense for this allocation was \$14 million, \$50 million and \$49 million for the years ended December 31, 2004, 2003 and 2002, respectively. We have not reimbursed these amounts to GE, and have recorded them as a capital contribution in each year. Following the completion of the IPO, GE no longer allocates any of its corporate expenses to us.

GE continues to provide us with many of the corporate services described above on a transitional basis, and we are arranging to procure other services pursuant to arrangements with third parties or through our own employees. In the aggregate, we expect that our total costs for procuring corporate services that previously had been provided by GE will not materially exceed the amounts we historically have paid to GE for these services, including GE's allocation to us for its corporate overhead. However, we have incurred and expect to continue to incur incremental advertising, marketing, investor relations and legal entity transition expenses to establish a new brand identity. We also incurred compensation expense with respect to the establishment of our new equity plans. In addition, we have obtained direct access to a variety of third-party products and services, including technology licenses, as a result of GE's relationships with those third parties. We have negotiated and are continuing to negotiate our own arrangements with third-party providers for these products and services, and we do not believe these arrangements will result in materially increased costs in the aggregate.

Investment management services. We have received and will continue to receive investment management services from GE Asset Management Incorporated, or GEAM, a subsidiary of GE, pursuant to agreements that were, with limited exceptions, amended in connection with the IPO. We also entered into new agreements with GE Asset Management Limited, or GEAML, an affiliate of GEAM, for investment management services in the U.K. and Continental Europe. Pursuant to these agreements, the fees charged by GEAM and GEAML are based on a percentage of the value of the assets under management. This percentage is established annually by agreement between us and GEAM or GEAML and is intended to reflect the cost to GEAM or GEAML of providing its services and, for the agreements with GEAML, a premium of 5%. For the years ended December 31, 2004, 2003 and 2002, our aggregate costs for investment management and related administration services provided by GEAM and GEAML were approximately \$33 million, \$61 million and \$39 million, respectively.

Reinsurance transactions. In addition to our arrangements with UFLIC, we have entered into reinsurance transactions with affiliates of GE, principally Employers Reassurance Company and ERC Life Reinsurance Corporation (formerly an affiliate of GE), which we refer to collectively as ERC, under which we have reinsured some of the risks of our insurance policies on terms comparable to those we could obtain from third parties. We have paid premiums to these affiliates of \$39 million, \$56 million and \$60 million for the years ended December 31,

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2004, 2003 and 2002, respectively. In addition, in 2002, one of our subsidiaries entered into a life reinsurance agreement with an affiliated company, GE Pensions Limited, to reinsure 95% of our liabilities under certain life insurance policies. We have paid premiums to this affiliate of \$100 million and \$94 million for the years ended December 31, 2003 and 2002, respectively. This agreement was terminated as of December 31, 2003.

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Employee benefit plans. Historically, we have reimbursed GE for benefits it has provided to our employees under various employee benefit plans, including GE's retirement plan, retiree health and life insurance benefit plans, defined contribution savings plan and life and health insurance benefits through the GE benefit program. We incurred expenses associated with these plans of \$108 million, \$109 million and \$112 million for the years ended December 31, 2004, 2003 and 2002, respectively. GE will continue to provide these benefits to our employees for so long as GE owns more than 50% of our outstanding common stock. See note 13 to our financial statements included elsewhere in this prospectus. In addition to these expenses for which we have reimbursed GE, we have incurred expenses of \$2 million, \$9 million and \$6 million for certain GE stock option and restricted stock unit grants for the years ended December 31, 2004, 2003 and 2002, respectively. As in the case of the allocation of corporate overhead, we have not reimbursed these amounts with respect to stock options and restricted stock units to GE. In connection with the IPO, we established our own equity compensation plans. See "Equity plans" below.

Services provided to GE

We have provided various products and services to GE on terms comparable to those we provide to third-parties and we expect to continue to provide many of these products and services to GE.

In addition, in connection with the IPO, we entered into a series of arrangements with GE pursuant to which we will provide a variety of additional services to GE, including the arrangements discussed below. The following describes the principal impact of those service arrangements on our results of operations:

Transition services relating to GE and GEFAHI businesses not acquired by us. We provide services to certain of GE's insurance businesses that we did not acquire. These services include finance, information systems, network services and regulatory support. We continue to provide these services and will do so for a minimum of two years and a maximum of three years, in most cases, following the IPO. For the two years following the completion of the IPO, GE generally may not terminate any of the services we provide. GE has agreed to pay us \$40 million in equal quarterly installments during each of the first two years following the completion of the IPO for our provision of the transition services to GE. The charges for the transition services generally are intended to allow the providing company to fully recover the allocated direct costs of providing the services, plus all out-of-pocket costs and expenses, generally without profit.

Management consulting services. We have agreed to provide certain management consulting services to GE for a period of five years following the IPO. These services include delivering training, providing consultation and strategic advice with respect to actuarial, regulatory and other emerging issues, planning and participating in meetings with rating agencies and regulators, participating in government relations activities and various other activities. In consideration for these services, GE will pay us a fee of \$1 million per month during the first four years following the completion of the IPO and \$0.5 million per month during the fifth year. GE cannot terminate this arrangement before the expiration of the five-year term.

GIC investment administration services. We entered into three agreements with affiliates of GE, effective as of January 1, 2004, to manage a pool of municipal guaranteed investment contracts, or GICs, issued by those affiliates. Pursuant to these agreements, we have agreed to originate GIC liabilities and advise the GE affiliates regarding the investment, administration and management of their assets that support those liabilities. Under two of those agreements, we receive an administration fee of 0.165% per annum of the maximum program size for those GE affiliates, which is \$15 billion. The agreements also provide for termination fees in the event of early termination at the option of either affiliate. Under a third agreement with another affiliate, we receive a management fee of 0.10% per annum of the book value of the investment contracts or similar securities issued by that affiliate after January 1, 2003, which was \$1.6 billion as of December 31, 2004. The fee we receive on the contracts issued by that affiliate before January 1, 2003 is based upon a pricing arrangement that varies depending upon the maturities of those contracts and that affiliate's cost of capital. The book value of the contracts issued before January 1, 2003 was \$1.5 billion as of December 31, 2004 and is expected to generate a

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weighted average fee of approximately 0.35% in 2005. We also will receive reimbursement of our operating expenses under each of the agreements. The initial term of each of the three agreements will expire December 31, 2006, and unless terminated at the option of either party, each agreement automatically will renew on January 1 of each year for successive terms of one year.

Institutional asset management services. Prior to the completion of the IPO, we offered a broad range of institutional asset management services to third parties. GEAM provided the portfolio management services for this business, and we provided marketing, sales and support services. We did not acquire the institutional asset management services business from GEFAHI, but we continue to provide services to GEAM and GEFAHI related to this asset management business, including client introduction services, asset retention services and compliance support. GEFAHI has agreed to pay us a fee of up to \$10 million per year for four years following the completion of the IPO to provide these services. The fee will be determined based upon the level of third-party assets under management managed by GEAM over the four-year term. The agreement may not be terminated by GEAM or GEFAHI, except for non-performance or in the event that we commence a similar institutional asset management business.

Additional arrangements with GE

In addition to the arrangements described above pursuant to which we and GE will provide services to each other, we also entered into the following additional arrangements with GE:

Tax Matters Agreement. As a consequence of our separation from GE, and our election jointly made with GE to treat that separation as an asset sale under section 338 of the Internal Revenue Code, we expect to become entitled to additional tax deductions for periods after our corporate reorganization. We expect to realize tax savings from these deductions and have recorded our estimate of these tax savings on our statement of financial position as a \$718 million reduction in net deferred income tax liabilities. We are obligated, pursuant to our Tax Matters Agreement with GE, to pay to GE, on an after-tax basis, 80% of the amount of tax we are projected to save for each tax period as a result of these increased tax benefits, up to a maximum of \$640 million. We have recorded the \$389 million present value of this obligation to GE as our estimate of this liability in our statement of financial position. Since our initial estimates recorded at the time of the IPO, our estimate of the expected tax savings has increased significantly, while the present value of our obligation to GE has increased slightly. This is because (1) a portion of the future savings now exceeds the \$640 million maximum payment to GE, (2) the discount rate increased from that estimated at the time of the IPO, and (3) the average life of the obligation increased. Under the Tax Matters Agreement, we would also be required to pay to GE additional amounts in the event we realize certain other contingent benefits, or if we choose to defer certain payments and thereby incur interest on any such deferrals.

To the extent that we never realize the anticipated tax savings because we have insufficient taxable income of the appropriate character (or because of a reduction in tax rates), we may, at our option, defer payments until 2029. These deferred payments would bear interest over the term of the deferral at an interest rate of 5.72% per annum (estimated, in accordance with the Tax Matters Agreement, to be our cost of funds as of the date of our initial public offering for a borrowing of like duration) from the time that we were scheduled to make the payments.

In certain circumstances, we may realize tax savings later than projected in calculating the schedule of corresponding payments to GE pursuant to the Tax Matters Agreement, but our payment schedule to GE would not be changed. In these circumstances, we will remain obligated to pay amounts to GE even before we realize the corresponding tax savings, although we can choose to defer such payments. There are two categories of such circumstances. First, in certain limited instances the Tax Matters Agreement establishes binding factual assumptions pursuant to which we are scheduled to make payments to GE in advance of the time we anticipate realizing the corresponding tax savings. We estimate that the interest expense we will incur with respect to such advance payments over the entire life of the Tax Matters Agreement, if we choose to defer them, will be approximately \$25 million. The second, broader category of these circumstances are those situations in which our actual tax savings are delayed beyond

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the time we currently project for any reason other than a change in the tax returns on which the section 338 sales are reported. In the case of either the first or second category, we may defer the scheduled payments to GE until we actually realize the corresponding tax savings or, alternatively, we may make the payments from sources other than the projected tax savings. Any deferred payments would bear interest until made at the rate of 5.72% per annum.

The \$329 million difference between the \$718 million benefit we have recorded as the expected future tax savings and the \$389 million liability to GE we have recorded is part of our net stockholders' interest. These amounts reflect considered judgments and assessments as to the underlying facts and assumptions. However, if and to the extent our final section 338 tax savings exceed (or fall short of) the amount of tax savings we currently project, our additional paid-in capital would increase (or decrease) accordingly. As our obligation to make payments under the Tax Matters Agreement accretes over time, we will record interest expense at a rate of 5.72% per annum. Under the Tax Matters Agreement, GE also is responsible for certain taxes of our legal entities, other than taxes in respect of the section 338 elections described above, resulting from the various transactions implemented in connection with our separation from GE (other than the reinsurance with UFLIC). We record (or will record) these non-recurring taxes as a current tax expense (or benefit) when incurred, and we record (or will record) GE's payment of the taxes (or receipt of the benefit) as an equity contribution (or dividend).

UFLIC reinsurance arrangements. Prior to the completion of the IPO, we entered into several significant reinsurance transactions with UFLIC, an indirect subsidiary of GE. Under the terms of the agreements governing these reinsurance transactions, we transferred to UFLIC assets equal to the policyholder liabilities related to the ceded blocks of business and recorded a reinsurance recoverable asset for the amount of the policyholder liabilities reinsured, except with respect to the in-force liabilities for the variable annuity separate accounts, for which there is no asset transfer. We will continue to have a separate account liability in the amount of the policyholder liabilities related to the separate account assets which we did not transfer to UFLIC. We remain liable under these contracts and policies as the ceding insurer and, as a result, will continue to carry insurance reserve liabilities for the reinsured policies on our balance sheet. In connection with the Medicare supplement insurance assumed by us, UFLIC transferred to us cash and other investments, and we recorded a reinsurance liability, equal to the policyholder liabilities related to this assumed block of business. As of December 31, 2004, our total reinsurance recoverable for all our reinsurance arrangements with UFLIC was \$16.2 billion.

The reinsurance transactions have the effect of transferring the financial results of the reinsured blocks of business (except for Medicare supplement insurance) from us to UFLIC and the Medicare supplement insurance block of business from UFLIC to us. With respect to the long-term care insurance policies reinsured to UFLIC, we retained an interest in the future profitability of the block if it exceeds certain thresholds. We also are continuing to administer all the policies reinsured by UFLIC, and we will receive an expense allowance to reimburse us for the costs we incur to service these policies.

Equity plans

Prior to the IPO, our key employees participated in a number of GE's equity compensation plans. For grants issued prior to January 1, 2002, we recorded compensation expense related to our employees' participation in those plans over the vesting period of the awards based upon their intrinsic value at the grant date. For grants issued after January 1, 2002, we recorded compensation expense for share-based compensation awards over the vesting period of the awards based upon their fair value at the grant date in accordance with SFAS 123, *Accounting for Stock-Based Compensation*.

In connection with the IPO, we established our own equity compensation plans. Under these plans, unvested GE stock options, vested stock options held by our Chairman, President and Chief Executive Officer, GE stock appreciation rights and GE restricted stock units were canceled and converted into awards of our company, and we also granted new stock options in our company in connection with our separation from GE and the IPO. The GE stock options, stock appreciation rights and restricted stock units were converted based upon a ratio equal to

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the initial offering price of our common stock in the IPO (\$19.50), divided by the weighted average stock price of GE common stock for the trading day immediately preceding the pricing date of the IPO (\$30.52). The converted securities, if unvested, generally continue to vest over their original vesting periods. The unvested converted awards had approximately the same fair value at the date of the conversion as the GE awards that were replaced.

We incurred compensation expense of \$29 million and \$9 million for the years ended December 31, 2004 and 2003, respectively, and expect to incur expenses of \$41 million and \$31 million in the years ended December 31, 2005 and 2006, respectively, for 2004 and prior awards to our employees under these plans.

Branding costs

We expect to incur aggregate expenses of approximately \$35 million in each of the years ending December 31, 2005, 2006 and 2007 on marketing, advertising and legal entity transition expenses, relating to the costs of establishing our new brand throughout our business, including with sales intermediaries, employees, investors and consumers.

Critical accounting policies

The accounting policies discussed in this section are those that we consider to be particularly critical to an understanding of our financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. For all of these policies, we caution that future events rarely develop exactly as forecast, and our management's best estimates may require adjustment.

Reserves. We calculate and maintain reserves for the estimated future payment of claims to our policyholders and contractholders based on actuarial assumptions and in accordance with industry practice and U.S. GAAP. Many factors can affect these reserves, including economic and social conditions, inflation, healthcare costs, changes in doctrines of legal liability and damage awards in litigation. Therefore, the reserves we establish are necessarily based on estimates, assumptions and our analysis of historical experience. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments.

Insurance reserves differ for long- and short-duration insurance policies and annuity contracts. Measurement of long-duration insurance reserves (such as guaranteed renewable term life, whole life and long-term care insurance policies) is based on approved actuarial methods, but necessarily includes assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments. Short-duration contracts (such as payment protection insurance) are accounted for based on actuarial estimates of the amount of loss inherent in that period's claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Estimates of mortgage insurance reserves for losses and loss adjustment expenses are based on notices of mortgage loan defaults and estimates of defaults that have been incurred but have not been reported by loan servicers, using assumptions of claim rates for loans in default and the average amount paid for loans that result in a claim. As is common accounting practice in the mortgage insurance industry and in accordance

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with U.S. GAAP, loss reserves are not established for future claims on insured loans that are not currently in default.

Deferred acquisition costs. Deferred acquisition costs, or DAC, represents costs which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts that are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and contract and policy issuance expenses. DAC is subsequently amortized to expense, over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits.

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The amortization of DAC for traditional long-duration insurance products (including guaranteed renewable term life, life-contingent structured settlements and immediate annuities and long-term care insurance) is determined as a level proportion of premium based on commonly accepted actuarial methods and reasonable assumptions established when the contract or policy is issued about mortality, morbidity, lapse rates, expenses, and future yield on related investments. Amortization for annuity contracts without significant mortality risk and investment and universal life products is based on estimated gross profits and is adjusted as those estimates are revised. The DAC amortization methodology for our variable products (variable annuities and variable universal life insurance) includes a long-term equity market average appreciation assumption of 8.5%. When actual returns vary from the expected 8.5%, we assume a reversion to this mean over a 3- to 7-year period, subject to the imposition of ceilings and floors. The assumed returns over this reversion period are limited to the 85th percentile of historical market performance.

We regularly review all of these assumptions and periodically test DAC for recoverability. For deposit products, if the current present value of estimated future gross profits is less than the unamortized DAC for a line of business, a charge to income is recorded for additional DAC amortization. For other products, if the benefit reserves plus anticipated future premiums and interest earnings for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves.

Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC or to record a charge to increase benefit reserves. In recent years, the portion of estimated product margins required to amortize DAC and PVFP has increased in most lines of our business, with the most significant impact on investment products, primarily as the result of lower investment returns.

Present value of future profits. In conjunction with the acquisition of a block of life insurance policies or investment contracts, a portion of the purchase price is assigned to the right to receive future gross profits arising from existing insurance and investment contracts. This intangible asset, called the present value of future profits, or PVFP, represents the actuarially estimated present value of future cash flows from the acquired policies. PVFP is amortized, net of accreted interest, in a manner similar to the amortization of DAC. We regularly review our assumptions and periodically test PVFP for recoverability in a manner similar to our treatment of DAC.

Goodwill impairment. Goodwill resulting from acquisitions is tested for impairment at least annually using a fair value approach, which requires the use of estimates and judgment. To the extent the carrying amount of goodwill exceeds its fair value, an impairment charge to income would be recorded.

Valuation of investment securities. We obtain values for actively traded securities from external pricing services. For infrequently traded securities, we obtain quotes from brokers or we estimate values using internally developed pricing models. These models are based upon common valuation techniques and require us to make assumptions regarding credit quality, liquidity and other factors that affect estimated values.

Impairment of investment securities. We regularly review investment securities for impairment in accordance with our impairment policy, which includes both quantitative and qualitative criteria. Quantitative criteria include length of time and amount that each security position is in an unrealized loss position, and for fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Qualitative criteria include the financial strength and specific prospects for the issuer as well as our intent to hold the security until recovery. Our impairment reviews involve our finance, risk and asset management teams, as well as the portfolio management and research capabilities of GEAM and other third-party managers, as required. We actively perform comprehensive market research, monitor market conditions and segment our investments by credit risk in order to minimize impairment risks. See [Liquidity and Capital Resources](#) Impairments of investment securities and note 6 to our financial statements.

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The following table sets forth our historical and pro forma results of operations. The pro forma financial information reflects our historical results of operations as adjusted to reflect the various adjustments described under Selected Historical and Pro Forma Financial Information. The pro forma financial information principally reflects the exclusion from our results of operations of the structured settlement, variable annuity and long-term care insurance in-force blocks that we ceded to UFLIC in connection with the reinsurance transactions; the exclusion from our results of operations of certain businesses, including the Affinity segment, and other assets and liabilities of GEFAHI that were not transferred to us in connection with our corporate reorganization; the inclusion in our results of operations of incremental interest expense associated with the consideration that we issued to GEFAHI in connection with our corporate reorganization, including \$600 million of our Equity Units, \$100 million of our Series A Preferred Stock and the \$550 million Contingent Note; and the issuance of \$1.9 billion of senior notes and \$500 million of commercial paper.

Our historical results of operations include the results of operations of the Affinity segment and the blocks of business that we ceded to UFLIC through for all periods presented through May 24, 2004, the date of our corporate reorganization. Pro forma revenues and benefits and expenses (except interest expense) are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and benefits and expenses related to the reinsured blocks of business and the to the Affinity segment. Pro forma interest expense is higher than historical interest expense as the result of our revised capital structure following our corporate reorganization and the IPO.

(Dollar amounts in millions)	Historical			Pro forma
	Years ended December 31,			Year ended
	2004	2003	2002	December 31,
	2004	2003	2002	2004
Revenues:				
Premiums	\$ 6,559	\$ 6,707	\$ 6,107	\$ 6,388
Net investment income	3,648	4,051	3,979	3,160
Net realized investment gains	26	10	204	23
Policy fees and other income	824	915	939	664
Total revenues	11,057	11,683	11,229	10,235
Benefits and expenses:				
Benefits and other changes in policy reserves	4,804	5,270	4,640	4,340
Interest credited	1,432	1,624	1,645	1,319
Underwriting, acquisition and insurance expenses, net of deferrals	1,812	1,916	1,808	1,657
Amortization of deferred acquisition costs and intangibles	1,154	1,351	1,221	1,052
Interest expense	217	140	124	243
Total benefits and expenses	9,419	10,301	9,438	8,611
Earnings from continuing operations before income taxes and accounting change	1,638	1,382	1,791	1,624
Provision for income taxes	493	413	411	494
Net earnings from continuing operations before accounting change	\$ 1,145	\$ 969	\$ 1,380	\$ 1,130

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Our premiums consist primarily of premiums earned on individual life, long-term care, group life and health and payment protection insurance policies, income annuities and structured settlements with life contingencies and mortgage insurance policies. Premiums decreased \$148 million, or 2%, to \$6,559 million for the year ended December 31, 2004, compared to \$6,707 million for the year ended December 31, 2003, primarily as the result of a \$156 million decrease in our Affinity segment, a \$107 million decrease in our Protection

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segment, partially offset by an \$84 million increase in our Mortgage Insurance segment and a \$45 million increase in our Retirement Income and Investment segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Protection segment was primarily attributable to a decrease in long-term care insurance premiums as the result of the reinsurance transactions with UFLIC, as well as a decrease in payment protection insurance premiums as the result of the continued run-off of low return books of business. The increase in our Mortgage Insurance segment was primarily attributable to an increase in international mortgage insurance premiums, attributable to the aging of our international in-force block, which resulted in increased earned premiums from prior-year new insurance written, offset in part by a decrease in U.S. mortgage insurance premiums, attributable to decreased demand for mortgage insurance as the result of a smaller U.S. market for mortgage originations. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in premiums from life- contingent income annuities attributable to new distribution relationships in 2004, offset in part by a decrease in premiums from life- contingent structured settlements attributable to our decision to write those contracts only when we believe we will be able to achieve our targeted returns.

Net investment income. Net investment income represents the income earned on our investments. Net investment income decreased \$403 million, or 10%, to \$3,648 million for the year ended December 31, 2004 from \$4,051 million for the year ended December 31, 2003. This decrease in net investment income was primarily the result of a decrease in average invested assets, primarily due to the transfer of assets to UFLIC in connection with the reinsurance transactions, partially offset by new asset purchases. The decrease in net investment income was also the result of a decrease in weighted average investment yields to 5.5% for the year ended December 31, 2004 from 5.8% for the year ended December 31, 2003. The decrease in weighted average investment yields was primarily attributable to purchases of new assets in an interest rate environment where current market yields are lower than existing portfolio yields.

Net realized investment gains. Net realized investment gains consist of gross realized investment gains and gross realized investment (losses), including charges related to impairments. Net realized investment gains increased \$16 million to \$26 million for the year ended December 31, 2004 from \$10 million for the year ended December 31, 2003. For the year ended December 31, 2004, gross realized gains and (losses) were \$90 million and \$(64) million, respectively. Realized losses for the year ended December 31, 2004 included \$26 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments (\$17 million, \$5 million and \$4 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the timber products, healthcare, consumer products industries (\$6 million, \$4 million and \$3 million, respectively). The equity securities impairments primarily related to mutual fund investments. The other investments impairments related to impairment of limited partnership investments. For the year ended December 31, 2003, gross realized gains and (losses) were \$473 million and \$(463) million, respectively. The realized gains for the year ended December 31, 2003 included a \$43 million gain from a securitization of certain financial assets. Realized losses for the year ended December 31, 2003 included \$224 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments (\$126 million, \$83 million and \$15 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the transportation, mining and metals, utilities and energy and technology and communications industries (\$36 million, \$28 million, \$12 million and \$11 million, respectively). In addition, \$30 million of fixed maturities impairments were realized on asset-backed securities. The equity securities impairments related to mutual fund and common stock investments (\$37 million and \$46 million, respectively). The other investments impairments primarily related to impairment of limited partnership investments.

Policy fees and other income. Policy fees and other income consist primarily of cost of insurance and surrender charges assessed on universal life insurance policies, fees assessed against policyholder and contractholder account values, and commission income. Policy fees and other income decreased \$91 million, or 10%, to \$824 million for the year ended December 31, 2004 from \$915 million for the year ended December 31, 2003. This decrease was the result of a \$156 million decrease in our Affinity segment and a \$12 million decrease

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in our Mortgage Insurance segment. The decreases were partially offset by a \$46 million increase in our Corporate and Other segment, and a \$28 million increase in our Retirement Income and Investments segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Mortgage Insurance segment was primarily the result of a decrease in fees for contract underwriting services attributable to lower refinancing activity in the U.S. The increase in our Corporate and Other segment was primarily attributable to a gain related to our waiver of contractual rights under an outsourcing services agreement with GE's global outsourcing provider, 60% of which was sold in the fourth quarter. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in commission income due to increased sales of third-party products and fee income earned in connection with investment and administrative services related to a pool of municipal GICs issued by affiliates of GE, offset by a decrease in fee income attributable to the reinsurance transactions with UFLIC.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves consist primarily of reserve activity related to current claims and future policy benefits on life, long-term care, group life and health and payment protection insurance policies, structured settlements and income annuities with life contingencies and claim costs incurred related to mortgage insurance products. Benefits and other changes in policy reserves decreased \$466 million, or 9%, to \$4,804 million for the year ended December 31, 2004 from \$5,270 million for the year ended December 31, 2003. This decrease was primarily the result of a \$253 million decrease in our Retirement Income and Investments segment, a \$116 million decrease in our Affinity segment, a \$107 million decrease in our Protection segment and a \$40 million decrease in our Corporate and Other segment, offset partially by a \$50 million increase in our Mortgage Insurance segment. The decrease in our Retirement Income and Investments segment was primarily attributable to a decrease related to the reinsurance transactions with UFLIC and a reclassification of variable annuity sales inducements paid to contractholders, which were classified as underwriting, acquisition and insurance expenses, net of deferrals, in 2003. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Protection segment was primarily related to a decrease in our payment protection insurance business attributable to the lower loss ratio in the payment protection insurance run-off block. The decrease in our Corporate and Other segment was primarily attributable to lower litigation expenses and higher reserves at our Bermuda reinsurer. The increase in our Mortgage Insurance segment was primarily attributable to an increase in paid claims as well as an increase in loans in default associated with higher insurance in-force in our international mortgage insurance business.

Interest credited. Interest credited represents interest credited on behalf of policyholder and contractholder general account balances. Interest credited decreased \$192 million, or 12%, to \$1,432 million for the year ended December 31, 2004 from \$1,624 million for the year ended December 31, 2003. This decrease was primarily the result of a \$189 million decrease in our Retirement Income and Investments segment that was primarily attributable to a decrease in interest credited associated with the reinsurance transactions with UFLIC. The decrease in interest credited was also the result of lower interest credited on institutional products due to a decrease in the average size of the in-force block.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, represent costs and expenses related to the acquisition and ongoing maintenance of insurance and investment contracts, including commissions, policy issue expenses and other underwriting and general operating costs. These costs and expenses are net of amounts that are capitalized and deferred, which are primarily costs and expenses which vary with and are primarily related to the sale and issuance of our insurance policies and investment contracts, such as first year commissions in excess of ultimate renewal commissions and other policy issue expenses. These expenses decreased \$104 million, or 5%, to \$1,812 million for the year ended December 31, 2004, compared to \$1,916 million for the year ended December 31, 2003, primarily as the result of a \$121 million decrease in our Affinity segment, a \$37 million decrease in our Mortgage Insurance segment and a \$32 million decrease in our Corporate and Other Segment, partially offset by a \$75 million increase in our Protection segment and a \$11 million increase in our Retirement Income and Investments segment. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The

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decrease in our Mortgage Insurance segment was primarily attributable to a decrease in expenses primarily from lower underwriting expenses due to a decline in refinancing activity in the U.S., lower administrative costs and a decrease in the provision for indemnity liabilities related to a decline in mortgage loan origination. The decrease in our Corporate and Other segment was primarily attributable to a decrease in allocated expenses from GE as the result of our corporate reorganization and lower litigation expenses. The increase in our Protection segment was primarily attributable to an increase in our payment protection insurance business related primarily to an increase in commissions and other compensation arrangements in our run-off block, partially offset by decreased legal fees in our life insurance business following an agreement in principle to settle a class-action lawsuit in 2003 and lower other expenses and a decrease in the long-term care business primarily attributable to the reinsurance transactions with UFLIC. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in commission and other expenses incurred in our fee-based products primarily due to increased sales.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles consists primarily of the amortization of acquisition costs that are capitalized and PVFP. Amortization of deferred acquisition costs and intangibles decreased \$197 million, or 15%, to \$1,154 million for the year ended December 31, 2004 from \$1,351 million for the year ended December 31, 2003. This decrease was primarily the result of a \$132 million decrease in our Protection segment, a \$58 million decrease in our Affinity segment, and a \$20 million decrease in our Retirement Income and Investments segment, partially offset by a \$14 million increase in our Mortgage Insurance segment. The decrease in our Protection segment was primarily attributable to a decrease in payment protection insurance due to our decision not to renew certain distribution relationships, partially offset by the impact of favorable changes in foreign exchange rates. The decrease in our Affinity segment relates to the exclusion of this segment as a result of our corporate reorganization. The decrease in our Retirement Income and Investments segment was primarily attributable to the reinsurance transactions with UFLIC. The increase in the Mortgage Insurance segment was primarily attributable to accelerated amortization reflecting higher-than-expected early-year margins on recently written policies in the U.S. and the continued growth of our international business.

Interest expense. Interest expense increased \$77 million, or 55%, to \$217 million for the year ended December 31, 2004 from \$140 million for the year ended December 31, 2003. This increase was primarily the result of our revised debt structure following our corporate reorganization, as well as the full-year contribution of interest expense associated with securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003 and interest paid on non-recourse funding obligations issued in the third and fourth quarters of 2003 and the fourth quarter of 2004.

Provision for income taxes. Provision for income taxes increased \$80 million, or 19%, to \$493 million for the year ended December 31, 2004 from \$413 million for the year ended December 31, 2003. The effective tax rate increased to 30.1% for the year ended December 31, 2004 from 29.9% for the year ended December 31, 2003. The increase in effective tax rate was primarily due to the loss of foreign tax benefits as a result of the separation from GE, a decrease in benefits related to dividends received, and favorable examination developments in 2003, which did not recur in 2004, offset in part by tax benefits recognized in connection with our corporate reorganization.

Net earnings from continuing operations. Net earnings from continuing operations increased by \$176 million, or 18%, to \$1,145 million for the year ended December 31, 2004 from \$969 million for the year ended December 31, 2003. The increase in net earnings from continuing operations reflects increases in segment net earnings in each of our segments, except for our Affinity segment, whose net earnings decreased as a result of its exclusion as a result of our corporate reorganization.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased \$600 million, or 10%, to \$6,707 million for the year ended December 31, 2003 from \$6,107 million for the year ended December 31, 2002. This increase was primarily the result of a \$500 million increase in our Protection segment, a \$58 million increase in our Retirement Income and

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Investments segment, and a \$39 million increase in our Mortgage Insurance segment. The increase in our Protection segment was primarily attributable to increases in payment protection insurance premiums as a result of changes in foreign exchange rates and growth of the in-force block as well as growth in long-term care insurance premiums. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in life-contingent structured settlement premiums, offset in part by a decrease in life-contingent income annuities. The increase in our Mortgage Insurance segment was primarily attributable to an increase in international mortgage insurance premiums, offset in part by a decrease in U.S. mortgage insurance premiums.

Net investment income. Net investment income increased \$72 million, or 2%, to \$4,051 million for the year ended December 31, 2003 from \$3,979 million for the year ended December 31, 2002. This increase in net investment income was primarily the result of an increase in average invested assets. This increase was offset in part by a decrease in weighted average investment yields, primarily attributable to investments in the U.S., to 5.8% for the year ended December 31, 2003 from 6.0% for the year ended December 31, 2002.

Net realized investment gains. Net realized investment gains decreased \$194 million to \$10 million for the year ended December 31, 2003 from \$204 million for the year ended December 31, 2002. For the year ended December 31, 2003, gross realized gains and (losses) were \$473 million and \$(463) million, respectively. The realized gains for the year ended December 31, 2003 included a \$43 million gain from a securitization of certain financial assets. Realized losses for the year ended December 31, 2003 included \$224 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments (\$126 million, \$83 million and \$15 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the transportation, mining and metals, utilities and energy and technology and communications industries (\$36 million, \$28 million, \$12 million and \$11 million, respectively). In addition, \$30 million of fixed maturities impairments were realized on asset-backed securities. The equity securities impairments related to mutual fund and common stock investments (\$37 million and \$46 million, respectively). The other investments impairments primarily related to impairment of limited partnership investments. For the year ended December 31, 2002, gross realized gains and (losses) were \$790 million and \$(586) million, respectively. The realized gains for the year ended December 31, 2002 included \$29 million from a securitization of certain financial assets. Realized losses for the year ended December 31, 2002 included \$343 million of impairments. These impairments were attributable to fixed maturities, equity securities and other investments (\$193 million, \$133 million and \$17 million, respectively). The fixed maturities impairments primarily related to securities issued by companies in the technology and communications and airline industries (\$131 million and \$27 million, respectively). The technology and communication industry impairments include \$83 million related to securities issued by WorldCom Inc. and its affiliates. The equity securities impairments related to mutual fund and common stock investments (\$81 million and \$52 million, respectively). The other investments impairments are related to impairment of limited partnership and other private equity investments.

Policy fees and other income. Policy fees and other income decreased \$24 million to \$915 million for the year ended December 31, 2003 from \$939 million for the year ended December 31, 2002. This decrease was primarily the result of a \$25 million decrease in our Protection segment and an \$11 million decrease in our Affinity segment, partially offset by a \$10 million increase in our Mortgage Insurance segment. The decrease in our Protection segment was primarily attributable to a decrease in administrative fees from our group life and health insurance business. The decrease in our Affinity segment was primarily attributable to the decision to discontinue certain products and distribution relationships that did not meet our target return thresholds. The increase in our Mortgage Insurance segment was primarily attributable to higher contract underwriting fees related to increased refinancing activity in the U.S. and higher fees from increased volume in our international mortgage insurance business.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$630 million, or 14%, to \$5,270 million for the year ended December 31, 2003 from \$4,640 million for the year ended December 31, 2002. This increase was primarily the result of a \$367 million increase in our Protection segment, a \$117 million increase in our Retirement Income and Investments segment and a \$69 million increase

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in our Mortgage Insurance segment. The increase in our Protection segment was primarily attributable to an increase in changes in policy reserves for long-term care insurance, payment protection insurance and life insurance. The increase in our Retirement Income and Investments segment was primarily attributable to an increase in changes in policy reserves for structured settlements. The increase in our Mortgage Insurance segment was primarily attributable to favorable loss development on prior year reserves.

Interest credited. Interest credited decreased \$21 million, or 1%, to \$1,624 million for the year ended December 31, 2003 from \$1,645 million for the year ended December 31, 2002. This decrease was primarily the result of a \$24 million decrease in our Retirement Income and Investments segment that was primarily attributable to lower credited rates on GICs and funding agreements, offset in part by an increase in interest credited resulting from more variable annuity policyholders selecting the fixed account option on their contracts, on which we credit interest. The decrease in interest credited was also the result of a reduction in our weighted average crediting rates to 3.3% for the year ended December 31, 2003 from 3.6% for the year ended December 31, 2002.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, increased \$108 million, or 6%, to \$1,916 million for the year ended December 31, 2003 from \$1,808 million for the year ended December 31, 2002. This increase was primarily the result of a \$89 million increase in our Protection segment, a \$66 million increase in our Mortgage Insurance segment, partially offset by a \$68 million decrease in our Affinity segment. The increase in our Protection segment was primarily attributable to growth of the payment protection insurance in-force block. The increase in our Mortgage Insurance segment was primarily attributable to higher expenses associated with increased refinancing activity in the U.S., continued investment in our international mortgage insurance business and higher indemnity liabilities for U.S. contract underwriting claims, which are included as other liabilities in our statement of financial position. U.S. contract underwriting indemnification claims arise out of our contract underwriting agreements, pursuant to which we agree to indemnify lenders against losses incurred in the event that we make material errors during the underwriting process. These claims are classified in this line item (and not in Benefits and other changes in policy reserves) because they do not relate to insured events. Our indemnification liabilities related to U.S. contract underwriting claims increased as the result of our updating the assumptions we used to calculate these indemnity liabilities to reflect recent underwriting experience and the increase in the volume of mortgage loans underwritten due to significant refinancing activity. The decrease in our Affinity segment was primarily attributable to cost saving initiatives that reduced compensation and benefits and other general expenses.

Amortization of deferred acquisition costs and intangibles. Amortization increased \$130 million, or 11%, to \$1,351 million for the year ended December 31, 2003 from \$1,221 million for the year ended December 31, 2002. This increase was primarily the result of a \$155 million increase in our Protection segment, partially offset by a \$20 million decrease in our Retirement Income and Investments segment. The increase in our Protection segment was primarily attributable to growth of the payment protection insurance in-force block. The decrease in our Retirement Income and Investments segment was primarily attributable to the impact of additional amortization in 2002 due to lower equity valuations of assets in our variable annuity separate accounts.

Interest expense. Interest expense increased \$16 million, or 13%, to \$140 million for the year ended December 31, 2003 from \$124 million for the year ended December 31, 2002. This increase was primarily the result of \$27 million of interest expense associated with securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003, and \$3 million of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003, supporting certain term life insurance policies. These increases were partially offset by a \$14 million decrease in interest expense that was primarily the result of lower average short-term borrowings and long-term borrowings.

Provision for income taxes. Provision for income taxes increased \$2 million to \$413 million for the year ended December 31, 2003 from \$411 million for the year ended December 31, 2002. The effective tax rate increased to 29.9% for the year ended December 31, 2003 from 22.9% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a \$152 million decrease in income tax expense for

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the year ended December 31, 2002 that was attributable to a favorable settlement with the Internal Revenue Service related to the treatment of certain reserves for obligations to policyholders on life insurance contracts, partially offset by dividend received deduction benefits realized in 2003. Excluding the effect of the settlement, our effective tax rate would have been 29.9% and 31.4% for the years ended December 31, 2003 and 2002, respectively.

Net earnings from continuing operations. Net earnings from continuing operations decreased by \$411 million, or 30%, to \$969 million for the year ended December 31, 2003 from \$1,380 million for the year ended December 31, 2002. This decrease was primarily the result of a reduction in net realized investment gains and the impact of a favorable settlement with the IRS in 2002. The decline in net earnings from continuing operations reflects decreases in segment net earnings in our Protection, Retirement Income and Investments, Mortgage Insurance and Corporate and Other segments, partially offset by increased segment net earnings in our Affinity segment.

Historical and Pro Forma Results of Operations by Segment

Set forth below is historical financial information for each of our operating segments (Protection, Retirement Income and Investments and Mortgage Insurance), together with our Corporate and Other segment and the Affinity segment. Set forth below also is pro forma financial information for our Protection, Retirement Income and Investments and Corporate and Other segments. There were no pro forma adjustments to the results of operations of our Mortgage Insurance segment, and pro forma financial information is not provided for the Affinity segment because we did not acquire that segment from GEFAHI. All pro forma segment information is prepared on the same basis as the segment information presented in our unaudited financial statements.

Management regularly reviews the performance of each of our operating segments based on the after-tax net earnings (loss) of the segment, which excludes: (1) net realized investment gains (losses), (2) most of our interest and other financing expenses, (3) amounts reserved for the settlement in principle of the class action litigation relating to sales practices in our life insurance business, and (4) advertising and marketing costs and severance and restructuring charges. Although these excluded items are significant to our consolidated financial performance, we believe that the presentation of segment net earnings (loss) enhances our understanding and assessment of the results of operations of our operating segments by highlighting net earnings (loss) attributable to the normal, recurring operations of our business. However, segment net earnings (loss) is not a substitute for net income determined in accordance with U.S. GAAP.

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(Dollar amounts in millions)	Historical			Pro forma
	As of or for the years ended			
	December 31,			Year ended
	2004	2003	2002	December 31,
	2004	2003	2002	2004
Revenues by segment:				
Protection	\$ 6,064	\$ 6,143	\$ 5,605	\$ 5,935
Retirement Income and Investments	3,361	3,803	3,756	2,891
Mortgage Insurance	1,090	982	946	1,090
Affinity	218	566	588	
Corporate and Other	324	189	334	319
Total revenues	\$ 11,057	\$ 11,683	\$ 11,229	\$ 10,235
Segment net earnings (loss) from continuing operations:				
Protection	\$ 528	\$ 487	\$ 554	\$ 527
Retirement Income and Investments	153	151	186	148
Mortgage Insurance	426	369	451	426
Affinity	(14)	16	(3)	
Corporate and Other	52	(54)	192	29
Total segment net earnings (loss) from continuing operations	\$ 1,145	\$ 969	\$ 1,380	\$ 1,130
Total assets by segment (as of the period ended):				
Protection	\$ 31,806	\$ 29,254		
Retirement Income and Investments	56,610	55,614		
Mortgage Insurance	6,428	6,110		
Affinity		2,315		
Corporate and Other	9,034	10,138		
Total assets	\$ 103,878	\$ 103,431		

Protection segment

The following table sets forth the historical and pro forma results of operations relating to our Protection segment. Prior to our corporate reorganization, we entered into several significant reinsurance transactions in which we ceded to UFLIC a block of long-term care insurance policies that we reinsured from Travelers in 2000, and we assumed from UFLIC in-force blocks of Medicare supplement insurance policies.

We ceded the Travelers long-term care block to UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore its results are not included in our historical results after that date. Similarly, we assumed the Medicare supplement blocks from UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore their results are included in our historical results after that date. As a result of the foregoing, our historical results of operations for the year ended December 31, 2004 are not comparable to our results of operations for the years ended December 31, 2003 and 2002. The pro forma earnings information below reflects adjustments to record the effects of the reinsurance transactions as if they had been effective as of January 1, 2004. There were no pro forma adjustments to interest credited or interest expense because the long-term care insurance policies we ceded to UFLIC, and the Medicare supplement insurance policies

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UFLIC ceded to us, in connection with the reinsurance transactions do not generate such fees, interest credited or interest expense. Pro forma revenues and benefits and expenses are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and expenses related to the reinsured block of long-term care insurance.

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(Dollar amounts in millions)	Historical			Pro forma
	Years ended December 31,			Year ended
	2004	2003	2002	December 31,
	2004	2003	2002	2004
Revenues:				
Premiums	\$ 4,481	\$ 4,588	\$ 4,088	\$ 4,398
Net investment income	1,224	1,199	1,136	1,178
Policy fees and other income	359	356	381	359
Total revenues	6,064	6,143	5,605	5,935
Benefits and expenses:				
Benefits and other changes in policy reserves	2,890	2,997	2,630	2,788
Interest credited	362	365	362	362
Underwriting, acquisition and insurance expenses, net of deferrals	1,094	1,019	930	1,077
Amortization of deferred acquisition costs and intangibles	869	1,001	846	861
Interest expense	15	3		15
Total benefits and expenses	5,230	5,385	4,768	5,103
Earnings before income taxes	834	758	837	832
Provision for income taxes	306	271	283	305
Segment net earnings	\$ 528	\$ 487	\$ 554	\$ 527

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums decreased \$107 million, or 2%, to \$4,481 million for the year ended December 31, 2004 from \$4,588 million for the year ended December 31, 2003. This decrease was primarily the result of a \$102 million decrease in long-term care insurance premiums, consisting of a \$124 million decrease attributable to the reinsurance transactions with UFLIC, partially offset by a \$22 million increase in premiums associated with the growth of the in-force block. The decrease was also the result of a \$81 million decrease in payment protection insurance premiums, consisting of a \$231 million decrease on a constant-currency basis, net of a \$150 million increase attributable to changes in foreign exchange rates. The \$231 million decrease consisted of a \$393 million decrease in premiums in our run-off block, offset by a \$162 million increase in our continuing business due to new distribution relationships and the growth of consumer lending in Continental Europe. These decreases were offset in part by a \$61 million increase in life insurance premiums that was primarily attributable to growth of the term life insurance in-force block. The decreases were also offset in part by a \$15 million increase in group life and health insurance premiums attributable to growth of the in-force block that was primarily attributable to an increase in sales of non-medical products as the result of enhancements in our life insurance and disability product offerings and the expansion of our dental network.

Net investment income. Net investment income increased \$25 million, or 2%, to \$1,224 million for the year ended December 31, 2004 from \$1,199 million for the year ended December 31, 2003. This increase, which included \$13 million due to changes in foreign exchange rates, was primarily the result of an increase in average invested assets, offset in part by declining yields on investments and by a decrease in invested capital allocated to this segment in preparation for our corporate reorganization and initial public offering.

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Policy fees and other income. Policy fees and other income increased \$3 million, or 1%, to \$359 million for the year ended December 31, 2004 from \$356 million for the year ended December 31, 2003. This increase was primarily the result of a \$13 million increase in our life insurance business primarily attributable to an increase in policy fees and other income in our universal life insurance business. This increase was partially offset by a \$9 million decrease in administrative fees from our group life and health insurance business that was primarily attributable to higher lapse rates in 2004.

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Benefits and other changes in policy reserves. Benefits and other changes in policy reserves decreased \$107 million, or 4%, to \$2,890 million for the year ended December 31, 2004 from \$2,997 million for the year ended December 31, 2003. This decrease was primarily the result of a \$113 million decrease in our payment protection insurance business attributable to the lower loss ratio in the payment protection insurance run-off block, \$27 million of which was attributable to changes in foreign exchange rates. The decrease was also attributable to a \$85 million decrease in long-term care benefits and other changes in policy reserves, consisting of a \$150 million decrease primarily attributable to the reinsurance transactions with UFLIC, partially offset by a \$65 million increase primarily attributable to increased reserves and benefit payments resulting from the normal, expected increases in claims volume associated with the aging and continued growth of the long-term care in-force block. The decrease was partially offset by a \$71 million increase in our life insurance business attributable to growth of the in-force block and less favorable claim experience compared to 2003, as well as a \$19 million increase in our group life and health insurance business primarily attributable to growth in the in-force block and loss ratios that were more in line with expectations after favorable results in 2003.

Interest credited. Interest credited decreased \$3 million, or 1%, to \$362 million for the year ended December 31, 2004 from \$365 million for the year ended December 31, 2003. This decrease was primarily the result of decreased crediting rates for universal life insurance policies, offset in part by increased policyholder account balances on corporate owned life insurance policies.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals increased \$75 million, or 7%, to \$1,094 million for the year ended December 31, 2004 from \$1,019 million for the year ended December 31, 2003. The increase was primarily attributable to a \$118 million increase in our payment protection insurance business related primarily to an increase in commissions and other compensation arrangements in our run-off block. This increase was partially offset by a \$26 million decrease in our life insurance business primarily attributable to decreased legal fees following the agreement in principle to settle a class action lawsuit in 2003 and lower other expenses. The increase was also partially offset by an \$18 million decrease in our long-term care insurance business primarily attributable to the reinsurance transactions with UFLIC.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased \$132 million, or 13%, to \$869 million for the year ended December 31, 2004 from \$1,001 million for the year ended December 31, 2003. This decrease was primarily the result of a \$184 million decrease in payment protection insurance due to our decision not to renew certain distribution relationships, partially offset by an increase of \$69 million due to changes in foreign exchange rates. The decrease was also partially attributable to a \$20 million decrease in our life insurance business due to lower 2004 lapses in our term life insurance block and lower amortization on our universal life insurance block due to additional investment income related to bond calls and favorable universal life insurance claims experience, both of which resulted in accelerated amortization in 2003 and did not recur in 2004. Long-term care amortization decreased \$3 million primarily as a result of a \$14 million decrease related to the reinsurance transactions with UFLIC, partially offset by an increase in our long-term care business due to growth in the in-force block.

Interest expense. Interest expense increased \$12 million to \$15 million for the year ended December 31, 2004 from \$3 million for the year ended December 31, 2003. This increase was primarily the result of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003 and the fourth quarter of 2004, supporting certain term life insurance policies.

Provision for income taxes. Provision for income taxes increased \$35 million, or 13%, to \$306 million for the year ended December 31, 2004 from \$271 million for the year ended December 31, 2003. The effective tax rate was 36.7% and 35.8% for the years ended December 31, 2004 and 2003, respectively. The increase in effective tax rate was primarily due to a loss of foreign tax benefits as a result of the separation from GE.

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Segment net earnings. Segment net earnings increased by \$41 million, or 8%, to \$528 million for the year ended December 31, 2004 from \$487 million for the year ended December 31, 2003. The increase in segment net earnings primarily reflects increases in net earnings in our life, payment protection and long-term care insurance businesses, offset in part by a decrease in net earnings in our group life and health insurance business. The increase in life insurance was primarily attributable to growth of the in-force block and lower legal expenses following the agreement in principle to settle a class action lawsuit. The increase in payment protection insurance was primarily attributable to \$10 million in one-time charges related to employee benefit costs, as well as an \$8 million increase due to the favorable impact of foreign exchange rates and an increase due to growth in our continuing business, partially offset by the loss of certain foreign tax benefits. The increase in our long-term care insurance business was primarily attributable to the growth of the block, partially offset by a loss of earnings on invested capital attributable to a reallocation of capital to our Corporate and Other segment and decreased earnings as a result of the reinsurance transactions. The decrease in our group life and health insurance business was attributable to loss experience that was more in line with expectations after favorable results in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased \$500 million, or 12%, to \$4,588 million for the year ended December 31, 2003 from \$4,088 million for the year ended December 31, 2002. This increase was primarily the result of a \$265 million increase in payment protection insurance premiums, with \$155 million of that increase attributable to changes in foreign exchange rates and \$110 million of that increase attributable to growth of the in-force block. The increase was also the result of a \$232 million increase in long-term care insurance premiums that was primarily attributable to growth of the in-force block.

Net investment income. Net investment income increased \$63 million, or 6%, to \$1,199 million for the year ended December 31, 2003 from \$1,136 million for the year ended December 31, 2002. This increase was primarily the result of an increase in invested assets, offset in part by declining yields on investments in the lower interest rate environment.

Policy fees and other income. Policy fees and other income decreased \$25 million, or 7%, to \$356 million for the year ended December 31, 2003 from \$381 million for the year ended December 31, 2002. This decrease was primarily the result of a \$13 million decrease in administrative fees from our group life and health insurance business that was primarily attributable to higher lapse rates.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$367 million, or 14%, to \$2,997 million for the year ended December 31, 2003 from \$2,630 million for the year ended December 31, 2002. This increase was primarily the result of a \$267 million increase in changes in reserves and benefit payments resulting from the normal, expected increases in claims volume associated with the aging of the long-term care insurance in-force block. The increase was also the result of a \$69 million increase in changes in policy reserves attributable to growth of the payment protection insurance in-force block, of which \$34 million was attributable to a lower amount of favorable loss development on prior-year reserves, and a \$38 million increase in life insurance reserves.

Interest credited. Interest credited increased \$3 million, or 1%, to \$365 million for the year ended December 31, 2003 from \$362 million for the year ended December 31, 2002. This increase was primarily the result of increased policyholder account balances on corporate-owned life insurance policies, offset in part by decreased crediting rates for universal life insurance policies.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals increased \$89 million, or 10%, to \$1,019 million for the year ended December 31, 2003 from \$930 million for the year ended December 31, 2002. This increase was primarily the result of an \$83 million increase attributable to growth in the payment protection insurance

in-force block that was primarily associated with an increase in net commission expense.

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Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles increased \$155 million, or 18%, to \$1,001 million for the year ended December 31, 2003 from \$846 million for the year ended December 31, 2002. This increase was primarily the result of a \$96 million increase resulting from growth of the payment protection insurance in-force block. The increase was also the result of a \$33 million increase primarily attributable to additional investment income due to early bond calls within the universal life insurance investment portfolio and to favorable universal life insurance claims experience, both of which accelerated amortization of deferred acquisition costs and intangibles. In addition, \$19 million of the increase was the result of the impact of the amortization of PVFP in 2002 for the block of long-term care insurance reinsured from Travelers.

Interest expense. Interest expense increased \$3 million for the year ended December 31, 2003 from \$0 million for the year ended December 31, 2002. This increase was the result of interest paid on non-recourse funding obligations, issued in the third and fourth quarters of 2003, supporting certain term life insurance policies.

Provision for income taxes. Provision for income taxes decreased \$12 million, or 4%, to \$271 million for the year ended December 31, 2003 from \$283 million for the year ended December 31, 2002. The effective tax rate increased to 35.8% for the year ended December 31, 2003 from 33.8% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a decrease in certain foreign tax loss and dividend benefits.

Segment net earnings. Segment net earnings decreased by \$67 million, or 12%, to \$487 million for the year ended December 31, 2003 from \$554 million for the year ended December 31, 2002. The decrease in segment net earnings primarily reflects decreases in net earnings for life, payment protection and group life and health insurance products, offset in part by increases in net earnings for long-term care insurance products. The decrease in life insurance was primarily attributable to an increase in life insurance reserves, as well as accelerated amortization of deferred acquisition costs and intangibles related to additional investment income resulting from early bond calls and favorable claims experience. The decrease in payment protection insurance was primarily attributable to higher underwriting, acquisition, insurance and other expenses, net of deferrals, and the impact of the recognition in 2002 of certain foreign tax loss benefits. The decrease in group life and health insurance was primarily attributable to lower administration fees due to higher lapse rates. The increase in long-term care insurance was primarily attributable to growth in the in-force blocks.

Retirement Income and Investments segment

The following table sets forth the historical and pro forma results of operations relating to our Retirement Income and Investments segment. Prior to our corporate reorganization, we entered into several significant reinsurance transactions in which we ceded to UFLIC all of our in-force structured settlements contracts and substantially all of our in-force variable annuity contracts.

We ceded these blocks of business to UFLIC in connection with our corporate reorganization on May 24, 2004, and therefore their results are not included in our historical results after that date. As a result of the foregoing, our historical results of operations for the year ended December 31, 2004 are not comparable to our results of operations for the years ended December 31, 2003 and 2002. The pro forma earnings information below reflects adjustments to record the effects of the reinsurance transactions as if they had been effective as of January 1, 2004. Pro forma revenues (except premiums) and benefits and expenses are lower than our historical revenues and benefits and expenses primarily as the results of the exclusion of revenues and expenses related to the reinsured block of long-term care insurance. There were no pro forma adjustments to premiums because the structured settlements we ceded are single premium products and do not have renewal premiums, and the variable annuity products we ceded are deposit contracts and their deposits are not recorded as premiums.

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(Dollar amounts in millions)	Historical			Pro forma
	Years ended December 31,			Year ended
	2004	2003	2002	December 31, 2004
Revenues:				
Premiums	\$ 1,094	\$ 1,049	\$ 991	\$ 1,094
Net investment income	1,996	2,511	2,522	1,582
Policy fees and other income	271	243	243	215
Total revenues	3,361	3,803	3,756	2,891
Benefits and expenses:				
Benefits and other changes in policy reserves	1,633	1,886	1,769	1,352
Interest credited	1,070	1,259	1,283	957
Underwriting, acquisition and insurance expenses, net of deferrals	250	239	221	229
Amortization of deferred acquisition costs and intangibles	170	190	210	122
Interest expense	1			1
Total benefits and expenses	3,124	3,574	3,483	2,661
Earnings before income taxes	237	229	273	230
Provision for income taxes	84	78	87	82
Segment net earnings	\$ 153	\$ 151	\$ 186	\$ 148

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums increased \$45 million, or 4%, to \$1,094 million for the year ended December 31, 2004 from \$1,049 million for the year ended December 31, 2003. This increase was primarily the result of a \$68 million increase in premiums for life-contingent income annuities that was primarily attributable to new distribution relationships in 2004. The increase was partially offset by a \$23 million decrease in premiums for life-contingent structured settlements that was primarily attributable to our decision to write those contracts only when we believe we will be able to achieve our targeted returns.

Net investment income. Net investment income decreased \$515 million, or 21%, to \$1,996 million for the year ended December 31, 2004 from \$2,511 million for the year ended December 31, 2003. This decrease was the result of a decrease in average invested assets, primarily associated with assets transferred to UFLIC in connection with the reinsurance transactions, partially offset by new asset purchases. The decrease in net investment income also was the result of declining yields on investments.

Policy fees and other income. Policy fees and other income increased \$28 million, or 12%, to \$271 million for the year ended December 31, 2004 from \$243 million for the year ended December 31, 2003. This increase was primarily attributable to a \$38 million increase in commission income due to increased sales of third-party products. The increase was also attributable to \$34 million of fee income earned pursuant to new arrangements we entered into, effective as of January 1, 2004, to provide investment and administrative services related to a pool of municipal GICs issued by affiliates of GE. The increase was also attributable to a \$10 million increase in fee income attributable to increased assets under

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management and a \$10 million increase in asset management service fees. These increases were partially offset by a \$62 million decrease in fee income primarily attributable to the reinsurance transactions with UFLIC.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves decreased \$253 million, or 13%, to \$1,633 million for the year ended December 31, 2004 from \$1,886 million for the year ended December 31, 2003. This decrease was primarily the result of a \$341 million decrease related to the reinsurance transactions with UFLIC. The decrease was also partially attributable to a \$34 million reclassification in variable annuity sales inducements paid to contractholders, which were classified as underwriting, acquisition and insurance expenses, net of deferrals, in 2003. This reclassification was the result of the adoption of SOP 03-1 on

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January 1, 2004. The decrease was partially offset by a \$69 million increase in reserves relating to life-contingent income annuities and a \$17 million increase related to favorable mortality on income annuities in 2003 which did not recur in 2004. In addition, in the fourth quarter of 2004, we recorded a one-time charge of \$49 million, \$41 million of which was recorded in benefits and other changes in policy reserves. This charge related to a small run-off block of equity-indexed annuities and resulted from an adjustment of reserving processes.

Interest credited. Interest credited decreased \$189 million, or 15%, to \$1,070 million for the year ended December 31, 2004 from \$1,259 million for the year ended December 31, 2003. This decrease was primarily attributable to a \$172 million decrease in interest credited as the result of the reinsurance transactions with UFLIC. This decrease was also the result of a \$16 million decrease relating to lower interest credited on institutional products due to a decrease in the average size of the in-force block, as well as lower average interest crediting rates.

Underwriting, acquisition and insurance expenses, net of deferrals. Underwriting, acquisition and insurance expenses, net of deferrals, increased by \$11 million, or 5%, to \$250 million for the year ended December 31, 2004 from \$239 million for the year ended December 31, 2003. This increase was primarily the result of an increase of \$32 million in commission and other expenses incurred in our fee-based products primarily due to increased sales. The increase was also the result of the reclassification of \$33 million of variable annuity sales inducements paid to contractholders which were classified as deferred acquisition costs in the prior year. The increase was partially offset by a \$45 million decrease in expenses associated with blocks of business ceded as part of the reinsurance transactions with UFLIC and an \$7 million decrease in guarantee fund assessments.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased \$20 million, or 11%, to \$170 million for the year ended December 31, 2004 from \$190 million for the year ended December 31, 2003. This decrease was primarily the result of a \$33 million decrease attributable to the reinsurance transactions with UFLIC. The decrease was partially offset by \$8 million of accelerated amortization of deferred acquisition costs associated with variable life insurance.

Provision for income taxes. Provision for income taxes increased \$6 million, or 8%, to \$84 million for the year ended December 31, 2004 from \$78 million for the year ended December 31, 2003. The effective tax rate increased to 35.4% for the year ended December 31, 2004 from 34.1% for the year ended December 31, 2003. The increase in effective tax rate was primarily the result of the impact of higher dividends received deduction benefits related to separate account annuity products in 2003.

Segment net earnings. Segment net earnings increased \$2 million, or 1%, to \$153 million for the year ended December 31, 2004 from \$151 million for the year ended December 31, 2003. This increase was primarily the result of lower expenses due primarily to the reinsurance transactions with UFLIC, offset by declining yields on invested assets. The increase in segment net earnings also was attributable to an increase in fees received under new contracts with GE to manage its municipal GIC business, as well as growth in our asset management businesses, growth in assets under management overall, and improved spreads, offset by a one-time charge of \$32 million (post-tax) related to an adjustment of reserving processes related to a small run-off block of equity-indexed annuities.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased \$58 million, or 6%, to \$1,049 million for the year ended December 31, 2003 from \$991 million for the year ended December 31, 2002. This increase was primarily the result of a \$92 million increase in premiums for life-contingent structured settlements that was attributable to higher sales of this product. This increase was offset in part by a \$31 million decrease in premiums for life-contingent income annuities that was primarily attributable to lower sales of this product resulting from a reduction of crediting and payout rates in 2003 in the lower interest rate environment.

Net investment income. Net investment income decreased \$11 million to \$2,511 million for the year ended December 31, 2003 from \$2,522 million for the year ended December 31, 2002. This decrease was primarily the result of declining yields on investments, which was offset in part by an increase in invested assets.

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Policy fees and other income. Policy fees and other income were unchanged at \$243 million for the years ended December 31, 2003 and December 31, 2002.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$117 million, or 7%, to \$1,886 million for the year ended December 31, 2003 from \$1,769 million for the year ended December 31, 2002. This increase was primarily the result of a \$107 million increase in changes in policy reserves for structured settlements attributable to higher sales of this product.

Interest credited. Interest credited decreased \$24 million, or 2%, to \$1,259 million for the year ended December 31, 2003 from \$1,283 million for the year ended December 31, 2002. This decrease was primarily the result of lower credited rates on GICs and funding agreements attributable to the lower interest rate environment, offset in part by an increase in interest credited attributable to more variable annuity policyholders selecting the fixed account option on their contracts, on which we credit interest.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, increased by \$18 million, or 8%, to \$239 million for the year ended December 31, 2003 from \$221 million for the year ended December 31, 2002. This increase was primarily the result of an increase in general operating expenses, offset in part by an increase in deferrals of acquisition costs resulting from increased sales of variable annuities with bonus features, for which a portion of the benefit expense is deferred and amortized over the life of the product.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased \$20 million, or 10%, to \$190 million for the year ended December 31, 2003 from \$210 million for the year ended December 31, 2002. This decrease was primarily the result of the impact of a \$26 million increase in additional amortization of deferred acquisition costs in 2002 that was primarily attributable to lower equity valuations of assets in our variable annuity separate accounts.

Provision for income taxes. Provision for income taxes decreased \$9 million, or 10%, to \$78 million for the year ended December 31, 2003 from \$87 million for the year ended December 31, 2002. The effective tax rate increased to 34.1% for the year ended December 31, 2003 from 31.9% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of the impact of higher dividends received deduction benefits related to separate account annuity products in 2002.

Segment net earnings. Segment net earnings decreased \$35 million, or 19%, to \$151 million for the year ended December 31, 2003 from \$186 million for the year ended December 31, 2002. This decrease in segment net earnings was primarily the result of lower policy fees and other income and declining yields on invested assets. The decrease in segment net earnings reflects decreases in net earnings for structured settlement, fixed annuity and GIC products and an increase in net earnings for variable annuity products. The decrease in structured settlements and GICs was primarily attributable to lower reinvestment rates. The decrease in fixed annuities was primarily attributable to higher amortization of deferred acquisition costs. The increase in variable annuities was primarily attributable to tax benefits resulting from higher dividend deductions on our separate accounts.

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The following table sets forth the historical results of operations relating to our Mortgage Insurance segment. The Mortgage Insurance segment's results of operations are not affected by any of the pro forma adjustments.

(Dollar amounts in millions)	Years ended		
	December 31,		
	2004	2003	2002
Revenues:			
Premiums	\$ 800	\$ 716	\$ 677
Net investment income	254	218	231
Policy fees and other income	36	48	38
Total revenues	1,090	982	946
Benefits and expenses:			
Benefits and other changes in policy reserves	165	115	46
Underwriting, acquisition and insurance expenses, net of deferrals	262	299	233
Amortization of deferred acquisition costs and intangibles	51	37	39
Total benefits and expenses	478	451	318
Earnings before income taxes	612	531	628
Provision for income taxes	186	162	177
Segment net earnings	\$ 426	\$ 369	\$ 451

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums increased \$84 million, or 12%, to \$800 million for the year ended December 31, 2004 from \$716 million for the year ended December 31, 2003. This increase was primarily the result of a \$125 million increase in premiums in our international mortgage insurance business, \$35 million of which was attributable to favorable foreign exchange rates. The increase also was partially attributable to the aging of our international in-force block, which resulted in increased earned premiums from prior-year new insurance written. The increase in international premiums was partially offset by a \$41 million decrease in our U.S. mortgage insurance premiums. This decrease in U.S. mortgage insurance premiums was primarily the result of the decline in our in-force block due to decreased demand for mortgage insurance as the result of a smaller market for mortgage originations, as well as a reduction in business from some mortgage lenders following our actions to restructure our captive reinsurance arrangements with premium risk cessions in excess of 25%.

Net investment income. Net investment income increased \$36 million, or 17%, to \$254 million for the year ended December 31, 2004 from \$218 million for the year ended December 31, 2003. This increase was primarily the result of a \$32 million increase in investment income in our international business, \$13 million of which was attributable to changes in foreign exchange rates, related to the growth in invested assets.

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Investment income in our U.S. mortgage insurance business increased \$4 million due to increasing yields on invested assets. As discussed below under Liquidity and Capital Resources, our U.S. mortgage insurance business paid a \$700 million dividend to our parent holding company in December 2004. This dividend reduced the invested assets in our U.S. mortgage insurance business at the end of 2004.

Policy fees and other income. Policy fees and other income decreased \$12 million, or 25%, to \$36 million for the year ended December 31, 2004 from \$48 million for the year ended December 31, 2003. This decrease was primarily the result of a \$19 million decrease in fees for contract underwriting services attributable to lower refinancing activity in the U.S. This decrease was offset in part by a \$7 million increase in fees from increased volume in our international mortgage insurance business.

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Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$50 million, or 43%, to \$165 million for the year ended December 31, 2004 from \$115 million for the year ended December 31, 2003. This increase was primarily the result of a \$28 million increase in U.S. paid losses and a \$22 million increase primarily attributable to an increase in claims and loans in default associated with higher insurance in-force in our international mortgage insurance business, \$4 million of which was due to changes in foreign exchange rates.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, decreased \$37 million, or 12%, to \$262 million for the year ended December 31, 2004 from \$299 million for the year ended December 31, 2003. This decrease was primarily attributable to a \$54 million decrease in expenses primarily attributable to lower underwriting expenses due to a decline in refinancing activity in the U.S. and lower administrative costs, and a \$17 million decrease in the provision for indemnity liabilities related to a decline in mortgage loan origination primarily attributable to decreased mortgage refinancing activity. These declines were offset in part by a \$34 million increase in expenses to support the expansion of our international mortgage insurance business, \$8 million of which was attributable to changes in foreign exchange rates.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles increased \$14 million, or 38%, to \$51 million for the year ended December 31, 2004 from \$37 million for the year ended December 31, 2003. The increase was partially attributable to a \$6 million increase in mortgage insurance amortization in the U.S. primarily due to accelerated amortization reflecting higher-than-expected early-year margins on recently written policies. The increase was also attributable to an \$8 million increase in international insurance amortization due primarily to the continued growth of our international business, \$2 million of which was attributable to changes in foreign exchange rates.

Provision for income taxes. Provision for income taxes increased \$24 million, or 15%, to \$186 million for the year ended December 31, 2004 from \$162 million for the year ended December 31, 2003. The effective tax rate was 30.4% and 30.5% for the years ended December 31, 2004 and 2003, respectively. The decrease in effective tax rate was primarily due to a decrease in state income taxes and an increase in the benefit of tax-exempt investment income, offset by the loss of foreign tax benefits as a result of the separation from GE. Our Mortgage Insurance segment's effective tax rate is below the statutory rate primarily as a result of tax-exempt investment income.

Segment net earnings. Segment net earnings increased \$57 million, or 15%, to \$426 million for the year ended December 31, 2004 from \$369 million for the year ended December 31, 2003. This increase in segment net earnings was primarily attributable to a \$58 million increase in net earnings attributable to continued growth in our international mortgage insurance business, \$23 million of which was due to favorable foreign exchange rates. The relatively constant net earnings in our U.S. mortgage insurance business were primarily attributable to lower expenses, offset by a continued decrease in the in-force block and an increase in our paid claims.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased \$39 million, or 6%, to \$716 million for the year ended December 31, 2003 from \$677 million for the year ended December 31, 2002. This increase was primarily the result of an \$88 million increase in premiums in our international mortgage insurance business, \$24 million of which was attributable to changes in foreign exchange rates. This increase in international premiums was offset in part by a \$26 million decrease in premiums in our U.S. mortgage insurance business that was primarily attributable to higher premiums ceded in captive reinsurance transactions and a \$23 million decrease in premiums that was primarily attributable to lower persistency resulting from increased refinancing activity.

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Net investment income. Net investment income decreased \$13 million, or 6%, to \$218 million for the year ended December 31, 2003 from \$231 million for the year ended December 31, 2002. This decrease was primarily

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the result of a \$42 million decrease in net investment income that was primarily attributable to a decrease in invested assets resulting from the payment of dividends by the U.S. mortgage insurance business to our holding company. The decrease was also the result of declining yields on investments. These decreases were offset in part by a \$29 million increase in net investment income resulting from additional invested assets in our international mortgage insurance business, \$10 million of which was due to changes in foreign exchange rates.

Policy fees and other income. Policy fees and other income increased \$10 million, or 26%, to \$48 million for the year ended December 31, 2003 from \$38 million for the year ended December 31, 2002. This increase was the result of a \$5 million increase in fees for contract underwriting services attributable to higher refinancing activity in the U.S. and a \$5 million increase in fees from increased volume in our international mortgage insurance business.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$69 million, or 150%, to \$115 million for the year ended December 31, 2003 from \$46 million for the year ended December 31, 2002. This increase was the result of a \$60 million increase primarily attributable to a lower amount of favorable loss development on prior year reserves and a \$9 million increase in paid claims on U.S. flow mortgage insurance offset in part by a \$4 million decrease primarily attributable to favorable loss development on U.S. bulk mortgage insurance, and a \$4 million increase primarily attributable to an increase in loans in default associated with higher insurance in force levels in our international mortgage insurance business.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, increased \$66 million, or 28%, to \$299 million for the year ended December 31, 2003 from \$233 million for the year ended December 31, 2002. This increase was the result of a \$37 million increase in expenses that was primarily attributable to a significant increase in underwriting volume associated with refinancing activity in the U.S., an \$11 million increase attributable to higher indemnity liabilities for U.S. contract underwriting claims as the result of updating of the assumptions we used to calculate these indemnity liabilities to reflect recent underwriting experience and the increase in the volume of mortgage loans underwritten due to significant refinancing activity and an \$18 million increase attributable to continued investment in our international mortgage insurance business.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased \$2 million, or 5%, to \$37 million for the year ended December 31, 2003 from \$39 million for the year ended December 31, 2002. This decrease was primarily the result of the amortization of a lower amount of U.S. deferred expenses, offset by the higher volume in our international mortgage insurance business.

Provision for income taxes. Provision for income taxes decreased \$15 million, or 8%, to \$162 million for the year ended December 31, 2003 from \$177 million for the year ended December 31, 2002. The effective tax rate increased to 30.5% for the year ended December 31, 2003 from 28.2% for the year ended December 31, 2002. This increase in effective tax rate was primarily the result of a greater proportion of foreign income taxed at a higher rate than in the U.S. Our Mortgage Insurance segment's effective tax rate is significantly below the statutory rate primarily as the result of tax-exempt investment income.

Segment net earnings. Segment net earnings decreased \$82 million, or 18%, to \$369 million for the year ended December 31, 2003 from \$451 million for the year ended December 31, 2002. This decrease was primarily the result of a \$141 million decrease in U.S. net earnings, offset in part by a \$59 million increase in international net earnings. The decrease in U.S. net earnings was primarily attributable to greater losses from less favorable loss development on prior year reserves, decreases in premiums from increased ceding and lower persistency, and increases in underwriting expenses from refinancing activity and contract underwriting indemnification liabilities as the result of our updating the assumptions used to calculate these indemnity liabilities to reflect recent underwriting experience and increased volume. The increase in international net earnings was primarily the result of growth in our international mortgage insurance business.

Table of Contents**Affinity segment**

The following table sets forth the historical results of operations relating to the Affinity segment. Because we did not acquire any of the Affinity segment businesses from GEFAHI in our corporate reorganization, this segment's results of operations are included in our results of operations only for periods through May 24, 2004 and are not included in our pro forma financial information.

(Dollar amounts in millions)	Years ended December 31,		
	2004	2003	2002
Revenues:			
Premiums	\$ 88	\$ 244	\$ 247
Net investment income	26	62	70
Policy fees and other income	104	260	271
Total revenues	218	566	588
Benefits and expenses:			
Benefits and other changes in policy reserves	80	196	180
Underwriting, acquisition and insurance expenses, net of deferrals	123	244	312
Amortization of deferred acquisition costs and intangibles	47	105	116
Total benefits and expenses	250	545	608
Earnings (loss) before income taxes	(32)	21	(20)
Provision (benefit) for income taxes	(18)	5	(17)
Segment net earnings (loss)	\$ (14)	\$ 16	\$ (3)

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues, benefits and expenses, provision (benefit) for income taxes and segment net earnings for the Affinity segment decreased because the Affinity segment's results are not included in our results of operations for periods after May 24, 2004.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Total revenues. Total revenues decreased \$22 million, or 4%, to \$566 million for the year ended December 31, 2003 from \$588 million for the year ended December 31, 2002. This decrease was primarily the result of lower premiums and other income attributable to our decision to discontinue certain products and distribution relationships that did not meet our target return thresholds. This decrease was offset in part by an increase in premiums attributable to a reinsurance transaction in which certain premiums were ceded to us by the purchaser of a discontinued operation.

Total benefits and expenses. Total benefits and expenses decreased \$63 million, or 10%, to \$545 million for the year ended December 31, 2003 from \$608 million for the year ended December 31, 2002. This decrease was primarily the result of our decision to discontinue certain products and distribution relationships and implement cost savings initiatives that reduced compensation and benefits, as well as other general expenses. Our decision to discontinue certain products and distribution relationships and implement cost savings initiatives also reduced our deferrable expenses, resulting in a decrease in amortization of deferred acquisition costs and intangibles. These decreases were offset in part by an increase in benefits and expenses attributable to a reinsurance transaction in which certain benefits and expenses were ceded to us by the purchaser of a discontinued operation.

Provision (benefit) for income taxes. Provision (benefit) for income taxes increased \$22 million to \$5 million for the year ended December 31, 2003 from \$(17) million for the year ended December 31, 2002. This increased provision was the result of a foreign loss valuation allowance.

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Segment net earnings (loss). Segment net earnings (loss) increased \$19 million to \$16 million for the year ended December 31, 2003 from \$(3) million for the year ended December 31, 2002. This increase was primarily the result of our discontinuation of products and distribution relationships that did not meet our target return thresholds and reductions of compensation and benefit expenses and other general expenses resulting from cost savings initiatives.

Corporate and Other segment

The following table sets forth the historical and pro forma results of operations relating to our Corporate and Other segment. There were no pro forma adjustments to premiums or policy fees and other income because there are no premiums or policy fees and other income in the Corporate and Other segment that were ceded to UFLIC in connection with the reinsurance transactions. Pro forma net investment income is lower than our historical net investment income primarily as a result of a decrease attributable to reduced net investment income related to the \$1.836 billion capital contribution that we made to UFLIC in connection with our corporate reorganization, offset in part by an increase attributable to net investment income earned on excess surplus assets that were transferred from the Protection and Retirement Income and Investments segments to the Corporate and Other segment in 2004. Pro forma revenues are lower than our historical revenues primarily as a result of the adjustments to net investment income as described above, as well as the exclusion from our results of operations of net realized investment gains (losses) related to the long-term care insurance, structured settlement and variable annuity blocks we ceded to UFLIC in connection with the reinsurance transactions and net realized investment gains (losses) related to the Affinity segment. Pro forma expenses are higher than our historical expenses primarily as a result of the interest expense attributable to our debt structure following the IPO, including the offerings of senior notes and commercial paper.

(Dollar amounts in millions)	Historical			Pro forma
	Years ended December 31,			Year ended December 31,
	2004	2003	2002	2004
Revenues:				
Premiums	\$ 96	\$ 110	\$ 104	\$ 96
Net investment income	148	61	20	146
Net realized investment gains	26	10	204	23
Policy fees and other income	54	8	6	54
Total revenues	324	189	334	319
Expenses:				
Benefits and other changes in policy reserves	36	76	15	35
Underwriting, acquisition and insurance expenses, net of deferrals	83	115	112	89
Amortization of deferred acquisition costs and intangibles	17	18	10	18
Interest expense	201	137	124	227
Total expenses	337	346	261	369
Earnings (loss) before income taxes	(13)	(157)	73	(50)
Provision (benefit) for income taxes	(65)	(103)	(119)	(79)
Segment net earnings (loss)	\$ 52	\$ (54)	\$ 192	\$ 29

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Premiums. Premiums decreased \$14 million, or 13%, to \$96 million for the year ended December 31, 2004 from \$110 million for the year ended December 31, 2003. This decrease was primarily the result of decreased premiums from our Bermuda reinsurer attributable to the run-off of certain credit life insurance blocks.

Net investment income. Net investment income increased \$87 million, or 143%, to \$148 million for the year ended December 31, 2004 from \$61 million for the year ended December 31, 2003. This increase was primarily

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the result of an increase in investment income associated with an increase in invested assets not required to be allocated to our operating segments. The increase was also the result of a \$28 million increase in interest income from two securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003 and an \$18 million increase in partnership income.

Net realized investment gains. See the comparison for this line item under **Historical and Pro Forma Results of Operations**.

Policy fees and other income. Policy fees and other income increased \$46 million to \$54 million for the year ended December 31, 2004 from \$8 million for the year ended December 31, 2003. This was primarily the result of a \$40 million gain related to our waiver of contractual rights under an outsourcing services agreement with GE's global outsourcing provider, 60% of which was sold in the fourth quarter.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves decreased \$40 million, or 53%, to \$36 million for the year ended December 31, 2004 from \$76 million for the year ended December 31, 2003. This decrease was primarily the result of lower litigation expenses and higher reserves at our Bermuda reinsurer.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, decreased \$32 million, or 28%, to \$83 million for the year ended December 31, 2004 from \$115 million for the year ended December 31, 2003. This decrease was primarily the result of \$36 million lower allocated expenses from GE resulting from our corporate reorganization, \$26 million of lower litigation expenses and \$13 million of lower operating and other expenses. These decreases were partially offset by expenses of \$20 million relating to the issuance of stock options and stock appreciation rights in connection with our corporate reorganization and \$23 million relating to the costs of establishing the Genworth brand.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles decreased \$1 million, or 6%, to \$17 million for the year ended December 31, 2004 from \$18 million for the year ended December 31, 2003.

Interest expense. Interest expense increased \$64 million, or 47%, to \$201 million for the year ended December 31, 2004 from \$137 million for the year ended December 31, 2003. This increase was primarily the result of \$45 million of interest expense associated with our revised debt structure following our corporate reorganization and a \$20 million increase attributable to the securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003.

Provision (benefit) for income taxes. Provision (benefit) for income taxes decreased \$38 million to (\$65) million for the year ended December 31, 2004 from (\$103) million for the year ended December 31, 2003. The decreased benefit was primarily due to a lower pre-tax loss in 2004, a one-time reduction in U.K. taxes related to the restructuring of our U.K. legal entities and favorable examination developments in 2003, which did not recur in 2004. This decrease was partially offset by \$47 million of tax benefits recognized in connection with our corporate reorganization.

Segment net earnings (loss). Segment net earnings (loss) increased \$106 million to \$52 million for the year ended December 31, 2004 from \$(54) million for the year ended December 31, 2003. The increase in segment net earnings was primarily the result of an \$87 million increase in net investment income primarily attributable to an increase in invested assets not required to be allocated to our operating segments, a \$46 million tax benefit recognized in connection with our corporate reorganization, a \$25 million after-tax gain related to our waiver of contractual rights under an outsourcing services agreement with GE's global outsourcing provider, 60% of which was sold in 2004, and an increase in

invested assets not required to be allocated to our operating segments partially offset by a \$64 million increase in interest expense attributable to our revised debt structure following our corporate reorganization.

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Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Premiums. Premiums increased \$6 million, or 6%, to \$110 million for the year ended December 31, 2003 from \$104 million for the year ended December 31, 2002. This increase was primarily the result of a \$4 million increase in premiums attributable to our Mexican auto insurer.

Net investment income. Net investment income increased \$41 million, or 205%, to \$61 million for the year ended December 31, 2003 from \$20 million for the year ended December 31, 2002. This increase was primarily the result of a \$36 million increase relating to the adoption of FIN 46 on July 1, 2003.

Net realized investment gains. See the comparison for this line item under **Historical and Pro Forma Results of Operations**.

Policy fees and other income. Policy fees and other income increased \$2 million to \$8 million for the year ended December 31, 2003 from \$6 million for the year ended December 31, 2002.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves increased \$61 million, or 407%, to \$76 million for the year ended December 31, 2003 from \$15 million for the year ended December 31, 2002. This increase was primarily the result of certain litigation settlements resulting in an increase in reserves, as well as increased claims in our Mexican auto insurer due to unfavorable weather conditions and increased costs in our Viking reinsurer relating to experience payments on previously novated businesses.

Underwriting, acquisition, insurance and other expenses, net of deferrals. Underwriting, acquisition, insurance and other expenses, net of deferrals, increased \$3 million, or 3%, to \$115 million for the year ended December 31, 2003 from \$112 million for the year ended December 31, 2002. This increase was primarily the result of \$45 million higher litigation expense during 2003, partially offset by \$11 million of miscellaneous asset write-offs, \$10 million of expenses associated with the relocation of our long-term care insurance business and \$21 million of higher operating expenses during 2002.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles increased \$8 million, or 80%, to \$18 million for the year ended December 31, 2003 from \$10 million for the year ended December 31, 2002.

Interest expense. Interest expense increased \$13 million, or 10%, to \$137 million for the year ended December 31, 2003 from \$124 million for the year ended December 31, 2002. This increase was primarily the result of \$27 million of interest expense associated with securitization entities that were consolidated in our financial statements in connection with our adoption of FIN 46 on July 1, 2003. This increase was offset in part by a \$14 million decrease in interest expense that was primarily the result of lower average borrowings.

Provision (benefit) for income taxes. Provision (benefit) for income taxes decreased \$16 million to \$(103) million for the year ended December 31, 2003 from \$(119) million for the year ended December 31, 2002. This decrease was the result of the recognition in 2002 of a favorable settlement with the IRS related to the treatment of certain reserves for obligations to policyholders of life insurance contracts, offset in part by lower pre-tax earnings, a one-time reduction in U.K. taxes related to the restructuring of our U.K. legal entities, and increased dividends received

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deduction benefits. Changes to tax expense for our Corporate and Other segment are primarily the result of tax-exempt investment income and other items not directly allocated to specific products or segments.

Segment net earnings (loss). Segment net earnings (loss) decreased \$246 million to \$(54) million for the year ended December 31, 2003 from \$192 million for the year ended December 31, 2002. This decrease was primarily the result of the decrease in benefit for income taxes attributable to the impact of the 2002 favorable settlement with the IRS, the decrease in net realized investment gains and higher litigation reserves for the year ended December 31, 2003.

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Liquidity and Capital Resources

We conduct all our operations through our operating subsidiaries. Dividends from our subsidiaries and permitted payments to us under our tax sharing arrangements with our subsidiaries are our principal sources of cash at our holding company level.

Our primary uses of funds at our holding company level include payment of general operating expenses, payment of principal, interest and other expenses related to holding company debt, payment of dividends on our common and preferred stock, amounts we will owe to GE under the Tax Matters Agreement, contract adjustment payments on our Equity Units, contributions to subsidiaries, and, potentially, acquisitions. We currently pay quarterly cash dividends on our common stock at the rate of \$0.065 per share. However, the declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors. Our payment of dividends to our stockholders will depend partly upon our receipt of dividends from our insurance and other operating subsidiaries. In addition, our Series A Preferred Stock bears dividends at an annual rate of 5.25% of the liquidation value of \$50 per share. We also pay quarterly contract adjustment payments with respect to our Equity Units at an annual rate of 2.16% of the stated amount of \$25 per Equity Unit.

We declared dividends of \$171 million to our parent during 2002, of which \$107 million was paid in 2002 and \$64 million was paid in 2003. We declared and paid dividends of \$3,168 million to our parent during 2003, including a dividend of \$2,930 million paid on December 15, 2003. This dividend included the distribution of proceeds from the sale of our Japanese life insurance and domestic auto and homeowners insurance businesses, which closed on August 29, 2003, and other dividends received from our insurance subsidiaries. During 2004, as part of our corporate reorganization and prior to the IPO, we paid dividends of \$2,029 million to our parent. Since the completion of the IPO, we have declared a dividend on our common stock of \$32 million in each of the third and fourth quarters of 2004. The fourth quarter dividend was paid in January 2005.

The payment of dividends and other distributions to us by our insurance subsidiaries is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. During the years ended December 31, 2004, 2003 and 2002, we received dividends from our insurance subsidiaries of \$2,111 million (\$1,244 million of which were deemed extraordinary), \$1,472 million (\$1,400 million of which were deemed extraordinary) and \$840 million (\$375 million of which were deemed extraordinary), respectively. In addition, during the years ended December 31, 2004, 2003 and 2002, we received dividends from insurance subsidiaries related to discontinued operations of \$0, \$495 million and \$62 million, respectively. The ability of our insurance subsidiaries to pay dividends to us, and our ability to pay dividends to our stockholders, also are subject to various conditions imposed by the rating agencies for us to maintain our ratings.

Based on statutory results as of December 31, 2004, our subsidiaries could pay dividends of \$1,450 million to us in 2005 without obtaining regulatory approval. However, as a result of the dividends we paid in connection with our corporate reorganization, many of our insurance subsidiaries will not be able to pay us dividends until April 15, 2005. As part of our corporate reorganization, we retained cash at the holding company level which we believe will be adequate to fund our dividend payments, debt service, obligations under the Tax Matters Agreement and other obligations until our insurance subsidiaries can resume paying ordinary dividends to us. In addition, we received a dividend of \$700 million from our U.S. mortgage insurance business in December 2004 (included above in dividends paid by our insurance subsidiaries) following the release of statutory contingency reserves from that business. We used \$550 million of those proceeds to repay the Contingent Note, and we have retained the remaining \$150 million in a segregated account at our holding company to pay debt servicing expenses and dividends on our common stock. Of this amount, we expect that \$50 million will be available for disbursement during 2005, and \$100 million will be available for disbursement during 2006.

In addition to dividends from our insurance subsidiaries, our other sources of funds will include service fees we receive from GE, as described under [Overview](#) Separation from GE and related financial arrangements Services provided to GE, payments from our subsidiaries pursuant to tax

sharing arrangements, borrowings pursuant to our credit facilities, and proceeds from any additional issuance of commercial paper.

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In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI 489.5 million shares of our Class B Common Stock, \$600 million of our Equity Units, \$100 million of our Series A Preferred Stock, a \$2.4 billion note and the \$550 million Contingent Note. As described above, the Contingent Note was repaid in December 2004 with a portion of the proceeds of a \$700 million dividend paid to us by our U.S. mortgage insurance business. We repaid the \$2.4 billion note upon the completion of the IPO with borrowings under a short-term credit facility. We repaid those borrowings shortly thereafter with proceeds from our offerings of \$1.9 billion of senior notes and \$500 million of commercial paper. The \$1.9 billion aggregate principal amount of senior notes includes \$500 million LIBOR Floating Rate Notes due 2007, \$500 million 4.75% Notes due 2009, \$600 million 5.75% Notes due 2014, and \$300 million 6.50% Notes due 2034. As a result of hedging arrangements entered into with respect to these securities, our effective interest rates are 3.53% on the 2007 notes, 4.48% on the 2009 notes, 5.51% on the 2014 notes and 6.35% on the 2034 notes. The commercial paper was issued under a \$1 billion commercial paper program that we have established. We may issue additional commercial paper under this program from time to time.

The liabilities we assumed from GEFAHI include the Yen Notes, which are ¥60 billion aggregate principal amount of 1.60% notes due 2011 issued by GEFAHI, ¥3 billion of which GEFAHI held and transferred to us in connection with our corporate reorganization. In the third quarter of 2004, we retired the ¥3 billion of Yen Notes that were transferred to us. We have entered into arrangements to swap our obligations under the Yen Notes to a U.S. dollar obligation with a principal amount of \$491 million and bearing interest at a rate of 4.84% per annum.

In connection with our corporate reorganization, we entered into a Tax Matters Agreement with GE, which represents an obligation by us to GE that is estimated to have a present value of approximately \$389 million.

In connection with our corporate reorganization, we also entered into \$2 billion of revolving credit facilities, including a \$1.0 billion 364-day facility and a \$1.0 billion five-year facility. The revolving credit facilities support our commercial paper program and provide us with liquidity to meet general funding requirements. We expect to replace the 364-day facility upon its expiration with a similar or longer-term credit facility. Our ability to borrow under these facilities and to issue commercial paper in excess of \$500 million in the aggregate may be subject to GE's right as the holder of the Class B Common Stock to approve our incurrence of debt in excess of \$700 million outstanding at any one time (subject to certain exceptions). In addition, we use repurchase agreements to manage asset durations relative to policyholder and contractholder obligations.

We have agreed to repurchase directly from the selling stockholder, concurrently with the closing of this offering, \$500 million of our shares of Class B Common Stock at a price per share equal to the net proceeds per share that the selling stockholder will receive from the underwriters in this offering. We will finance the stock repurchase with cash available at our holding company. See Arrangements Between GE and Our Company Relationship with GE Stock Repurchase Agreement.

We believe our revolving credit facilities, further issuances under our commercial paper program, repurchase agreements and anticipated cash flows from operations will provide us with sufficient liquidity to meet our operating requirements for the foreseeable future. For further information about our borrowings, see note 14 to our financial statements, included elsewhere in this prospectus.

Net cash provided by operating activities was \$5,498 million, \$3,716 million and \$4,883 million for the years ended December 31, 2004, 2003 and 2002, respectively. Cash flows from operating activities are affected by the timing of premiums received, fees received and investment income. Principal sources of cash include sales of our products and services. The increase in cash from operating activities for the year ended December 31, 2004 compared to the year ended December 31, 2003 of \$1,782 million and the decrease in cash from operating activities for the year ended December 31, 2003 compared to the year ended December 31, 2002 of \$1,167 million was primarily the result of the timing of cash settlement for other assets and liabilities.

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As an insurance business, we typically generate positive cash flows from operating and financing activities, as premiums and deposits collected from our insurance and investment products exceed benefits paid and redemptions, and we invest the excess. Accordingly, in analyzing our cash flow we focus on the change in the amount of cash available and used in investing activities. Net cash from investing activities was \$(5,404) million, \$(681) million and \$(6,525) million for the years December 31, 2004, 2003 and 2002, respectively.

The decrease in net cash from investing activities for the year ended December 31, 2004 compared to December 31, 2003, of \$4,723 million was primarily the result of a \$1,621 million decrease in cash provided by the proceeds from the sale of our Japanese life insurance and domestic auto and homeowners insurance businesses in 2003 that did not recur in 2004 and an increase of \$2,057 million in net investment purchases. The decrease in net cash used in investing activities for the year ended December 31, 2003, compared to the year ended December 31, 2002, of \$5,844 million was the result of both less cash provided by operating activities of \$1,167 million, as discussed above, and more cash used in financing activities of \$5,007 million. Within our investing activities, during 2003, we received \$2,126 million of proceeds and dividends associated with the sale of our Japanese life insurance and domestic auto and homeowners insurance businesses.

Net cash from financing activities was \$(791) million, \$(2,714) and \$2,293 million for the years ended December 31, 2004, 2003 and 2002, respectively. Changes in cash from financing activities primarily relate to the issuance and repayment of borrowings, dividends to our stockholders and other capital transactions, as well as the issuance of, and redemptions and benefit payments on, investment contracts. The \$1,923 million increase in cash from financing activities for the year ended December 31, 2004, compared to the year ended December 31, 2003, was primarily the result of an increase in net cash flows from our stockholder, primarily in transactions related to our corporate reorganization, of \$2,430 million, as well as the issuance of long-term borrowings of \$1,895 million and lower net redemptions and deposits in investment contracts of \$678 million, partially offset by the decrease in net short-term borrowings of \$2,713 million and the repayment of the \$550 million Contingent Note. The decrease in cash used by financing activities for the year ended December 31, 2003, compared to the year ended December 31, 2002, of \$5,007 million was primarily the result of both lower deposits and higher redemptions of investment contracts, as a result of the lower interest rate environment, equity market downturns and volatility and pricing actions we took. These factors contributed to a decrease in the use of net cash from investment contracts by \$3,202 million. In addition, dividends paid to our stockholder, net of capital contributions received, increased by \$2,871 million. These increased uses of cash were partially offset by a net increase in cash provided from borrowings of \$1,066 million, consisting of a net increase in short-term borrowings, including commercial paper, of \$466 million, and an increase in non-recourse funding obligations of \$600 million.

The liquidity requirements of our insurance subsidiaries principally relate to the liabilities associated with their various insurance and investment products, operating costs and expenses, the payment of dividends to us, contributions to their subsidiaries, payment of principal and interest on their outstanding debt obligations and income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans and obligations to redeem funding agreements under applicable put option provisions.

Historically, our insurance subsidiaries have used cash flow from operations and sales of investment securities to fund their liquidity requirements. Our insurance subsidiaries principal cash inflows from operating activities derive from premiums, annuity deposits and policy and contract fees and other income, including commissions, cost of insurance, mortality, expense and surrender charges, contract underwriting fees, investment management fees, and dividends and distributions from their subsidiaries. The principal cash inflows from investment activities result from repayments of principal, sales of invested assets and investment income.

As of December 31, 2004, we had approximately \$2.8 billion of renewable floating rate funding agreements, which are deposit-type products that generally credit interest on deposits at a floating rate tied to an external

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market index. Purchasers of renewable funding agreements include money market funds, bank common trust funds and other short-term investors. Some of our funding agreements contain put provisions, through which the contractholder has an option to terminate the funding agreement for any reason after giving notice within the contract's specified notice period, which is generally 90 days. Of the \$2.8 billion aggregate amount outstanding as of December 31, 2004, \$1.6 billion had put option features, none of which were less than 90 days. GE Capital has guaranteed certain obligations under floating-rate funding agreements with a final maturity on or before June 30, 2005. This guarantee covers our obligations to contractholders and requires us to reimburse GE Capital for any payments made to contractholders under the guarantee. As of December 31, 2004, GE Capital's guarantee covered \$1.4 billion of outstanding floating-rate funding agreements.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance and long-term care insurance policies, are matched with investments having similar estimated lives such as long-term fixed maturities and mortgage loans. Shorter-term liabilities are matched with fixed maturities that have short- and medium-term fixed maturities. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment-grade fixed maturities to fund anticipated operating expenses, surrenders, and withdrawals. As of December 31, 2004, our total cash and invested assets was \$67.1 billion. Our investments in privately placed fixed maturities, mortgage loans, policy loans, limited partnership interests and restricted investments held by securitization entities are relatively illiquid. These asset classes represented 31% of the carrying value of our total cash and invested assets as of December 31, 2004.

Total assets were \$103.9 billion as of December 31, 2004, compared to \$103.4 billion as of December 31, 2003. Total assets remained relatively unchanged, with an increase in assets primarily attributable to normal business growth, partially offset by a decrease of \$5.7 billion of assets that were not transferred to us in connection with our corporate reorganization. Total liabilities were \$91.0 billion as of December 31, 2004, compared to \$87.6 billion as of December 31, 2003. This increase of \$3.4 billion was primarily due to growth in contractholder liabilities, as well as the issuance of \$600 million of our Equity Units and \$100 million of our mandatorily redeemable Series A Preferred Stock, partially offset by the tax impact of our corporate reorganization and other liabilities that were not transferred to us in connection with our corporate reorganization.

Contractual obligations

We enter into obligations to third-parties in the ordinary course of our operations. These obligations, as of December 31, 2004, are set forth in the table below. However, we do not believe that our cash flow requirements can be assessed based upon an analysis of these obligations. The most significant factor affecting our future cash flows is our ability to earn and collect cash from our customers. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates and market performance. Many of our obligations are linked to cash-generating contracts. These obligations include payments to contractholders that assume those contractholders will continue to make deposits in accordance with the terms of their contracts. In addition, our operations involve significant expenditures that are not based upon commitments. These include expenditures for income taxes and payroll.

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(Dollar amounts in millions)	Payments due by period				
	Total	2005	2006-2007	2008-2009	2010 and thereafter
Borrowings(1)	\$ 4,606	\$ 559	\$ 500	\$ 1,100	\$ 2,447
Operating lease obligations	139	29	47	37	26
Purchase obligations(2)	289	149	56	48	36
Insurance liabilities(3)	60,643	10,060	13,623	10,393	26,567
Other contractual liabilities(4)	625	31	41	54	499
Total contractual obligations	\$ 66,302	\$ 10,828	\$ 14,267	\$ 11,632	\$ 29,575

- (1) Includes principal of our short- and long-term borrowings, non-recourse funding obligations, senior notes underlying equity units and mandatorily redeemable Series A Preferred Stock, as described in note 14 to our financial statements. Any payment of principal of, including by redemption, or interest on, the non-recourse funding obligations is subject to regulatory approval.
- (2) Includes contractual purchase commitments; excludes funding commitments entered into in the ordinary course of business.
- (3) Includes guaranteed investment contracts and funding agreements, structured settlements and income annuities (including contracts we ceded to UFLIC, because we remain the primary obligor under those contracts), based upon scheduled payouts, as well as those contracts with reasonably determinable cash flow, such as deferred annuities, universal life, term life, long-term care, whole life and other life insurance contracts.
- (4) Because their future cash outflows are uncertain, the following non-current liabilities are excluded from this table: deferred taxes (except the Tax Matters Agreement, which is included, as described in note 15 to our financial statements), derivatives, deferred revenue and certain other items.

Impairments of Investment Securities

We regularly review investment securities for impairment in accordance with our impairment policy, which includes both quantitative and qualitative criteria. Quantitative criteria include length of time and amount that each security is in an unrealized loss position, and for fixed maturities, whether the issuer is in compliance with terms and covenants of the security. Our qualitative criteria include the financial strength and specific prospects for the issuer as well as our intent to hold the security until recovery. Our impairment reviews involve our finance, risk and asset management teams, as well as the portfolio management and research capabilities of GEAM and other third-party asset managers, as required. Our qualitative review attempts to identify those issuers with a greater than 50% chance of default in the coming twelve months. These securities are characterized as at-risk of impairment. As of December 31, 2004, securities at risk of impairment had aggregate unrealized losses of approximately \$50 million.

For fixed maturities, we recognize an impairment charge to earnings in the period in which we determine that we do not expect either to collect principal and interest in accordance with the contractual terms of the instruments or to recover based upon underlying collateral values, considering events such as a payment default, bankruptcy or disclosure of fraud. For equity securities, we recognize an impairment charge in the period in which we determine that the security will not recover to book value within a reasonable period. We determine what constitutes a reasonable period on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months for common equity securities. We measure impairment charges based upon the difference between the book value of a security and its fair value. Fair value is based upon quoted market price, except for certain infrequently traded securities where we estimate values using internally developed pricing models. These models are based upon common valuation techniques and require us to make assumptions regarding credit quality, liquidity and other factors that affect estimated values. The carrying value of infrequently traded securities as of December 31, 2004 was \$12.3 billion.

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For the twelve months ended December 31, 2004 and 2003, we recognized impairments of \$26 million and \$224 million, respectively. We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. For the twelve months ended December 31, 2004, the pre-tax realized investment loss incurred on the sale of fixed maturities and equity securities was \$38 million. The aggregate fair value of securities sold at a loss during twelve months ended December 31, 2004 was \$2.9 billion, which was approximately 98.6% of book value.

The following tables present the gross unrealized losses and estimated fair values of our 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, 2004:

(Dollar amounts in millions)	Less Than 12 Months				
	Amortized cost or cost	Estimated fair value	Gross unrealized losses	% below cost	# of securities
Description of Securities					
Fixed maturities:					
U.S. government and agencies	\$ 115	\$ 114	\$ (1)	0.9%	15
State and municipal	89	88	(1)	1.1%	28
Government non U.S.	225	222	(3)	1.3%	32
U.S. corporate	3,496	3,426	(70)	2.0%	400
Corporate non U.S.	1,224	1,207	(17)	1.4%	155
Asset Backed	857	853	(4)	0.5%	125
Mortgage Backed	2,807	2,776	(31)	1.1%	259
Subtotal, fixed maturities	8,813	8,686	(127)	1.4%	1,014
Equities securities	7	7			13
Total temporarily impaired securities	\$ 8,820	\$ 8,693	\$ (127)	1.4%	1,027
% Below cost fixed maturities:					
<20% Below cost	\$ 8,799	\$ 8,678	\$ (121)	1.4%	1,002
20-50% Below cost	14	8	(6)	42.9%	6
>50% Below cost					6
Total fixed maturities	8,813	8,686	(127)	1.4%	1,014
% Below cost equity securities:					
<20% Below cost	\$ 7	\$ 7	\$		12
20-50% Below cost					1
>50% Below cost					
Total equity securities	7	7			13
Total temporarily impaired securities	\$ 8,820	\$ 8,693	\$ (127)	1.4%	1,027
Investment grade	\$ 8,026	\$ 7,930	\$ (96)	1.2%	869
Below investment grade	600	575	(25)	4.2%	114
Not Rated Fixed maturities	187	181	(6)	3.2%	31

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Not Rated Equities	<u>7</u>	<u>7</u>	<u> </u>	<u> </u>	<u>13</u>
Total temporarily impaired securities	<u>\$ 8,820</u>	<u>\$ 8,693</u>	<u>\$ (127)</u>	<u>1.4%</u>	<u>1,027</u>

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(Dollar amounts in millions)	12 Months or More				
	Amortized cost or cost	Estimated fair value	Gross unrealized losses	% below cost	# of securities
Description of Securities					
Fixed maturities:					
U.S. government and agencies	\$ 3	\$ 3	\$		1
State and municipal	1	1			2
Government non U.S.	106	106			30
U.S. corporate	834	763	(71)	8.5%	127
Corporate non U.S.	181	176	(5)	2.8%	35
Asset Backed	55	54	(1)	1.8%	5
Mortgage Backed	244	233	(11)	4.5%	78
Subtotal, fixed maturities	1,424	1,336	(88)	6.2%	278
Equities securities	23	21	(2)	8.7%	19
Total temporarily impaired securities	\$ 1,447	\$ 1,357	\$ (90)	6.2%	297
% Below cost fixed maturities:					
<20% Below cost	\$ 1,319	\$ 1,262	\$ (57)	4.3%	234
20-50% Below cost	95	69	(26)	27.4%	23
>50% Below cost	10	5	(5)	50.0%	21
Total fixed maturities	1,424	1,336	(88)	6.2%	278
% Below cost equity securities:					
<20% Below cost	\$ 21	\$ 20	\$ (1)	4.8%	8
20-50% Below cost	2	1	(1)	50.0%	10
>50% Below cost					1
Total equity securities	23	21	(2)	8.7%	19
Total temporarily impaired securities	\$ 1,447	\$ 1,357	\$ (90)	6.2%	297
Investment grade	\$ 973	\$ 934	\$ (39)	4.0%	188
Below investment grade	450	401	(49)	10.9%	88
Not Rated Fixed maturities	1	1			2
Not Rated Equities	23	21	(2)	8.7%	19
Total temporarily impaired securities	\$ 1,447	\$ 1,357	\$ (90)	6.2%	297

The investment securities in an unrealized loss position as of December 31, 2004 for less than twelve months account for \$127 million, or 58%, of our total unrealized losses. Of the securities in this category, there were three securities with an unrealized loss in excess of \$5 million. These three securities had aggregate unrealized losses of \$18 million. The amount of the unrealized loss on these securities is driven primarily by the relative size of the holdings, the par values of which range from \$15 million to \$386 million, the maturities, which range from 2010 to 2036, and the credit quality of the issuers. The issuer of the investment scheduled to mature in 2010 prepaid the related principal and interest along with a prepayment fee in January 2005.

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The investment securities in an unrealized loss position as of December 31, 2004 for twelve months or more account for \$90 million, or 42%, of our total unrealized losses. There are 104 fixed-maturities in four industry groups that account for \$54 million, or 60%, of the unrealized losses in this category.

Forty-four of these 104 securities are in the finance and insurance sector. Within this sector, no single issue has unrealized losses greater than \$5 million. The unrealized losses of these securities are due primarily to changes in interest rates from the time the securities were purchased.

Thirty-five of these 104 securities are in the transportation sector and are related to the airline industry. All of our airline securities, with one exception, are collateralized by commercial jet aircraft associated with several

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domestic airlines and one cargo airline. The collateral underlying these securities consists of commercial jet aircraft, except for one that is secured by airline ticket receivables. We believe these security holdings are in a temporary loss position as a result of ongoing negative market reaction to difficulties in the commercial airline industry. Within this sector, we have recognized \$1 million and \$36 million of other-than-temporary impairments in 2004 and 2003, respectively. These holdings were written down to estimated fair value based upon the present value of expected cash flows associated with revised lease terms or the value of the underlying aircraft. As of December 31, 2004, we expect to collect full principal and interest in accordance with the contractual terms of the instruments of our remaining holdings in airline securities. For those airline securities that we have previously impaired, we expect to recover our carrying amount based upon underlying aircraft collateral values.

Fourteen of these 104 securities are in the consumer non-cyclical sector, of which there was one issuer with unrealized losses in excess of \$5 million. This issuer, which had a \$7 million unrealized loss, is in the tobacco industry, is current on all terms, shows improving trends with regards to liquidity and security price and is not considered at risk of impairment. Each of the other securities in this sector has unrealized losses of less than \$5 million.

Eleven of these 104 securities are in the consumer non-cyclical sector, of which there was one issuer with unrealized losses in excess of \$5 million. The aggregate par value of securities was \$37 million. This issuer is current on all terms and is not considered at risk of impairment.

In the remaining industry sectors, as of December 31, 2004, one issuer of fixed-maturity securities had an unrealized loss of \$5 million. This issuer is current on all terms, has sufficient liquidity to service current debt obligations and is seeking additional financing. No other single issuer of fixed maturities in these sectors has an unrealized loss of greater than \$5 million.

The equity securities in an unrealized loss position, as of December 31, 2004, for twelve months or more are primarily preferred stocks with fixed maturity-like characteristics. No single security had an unrealized loss greater than \$2 million.

Off-balance Sheet Transactions

We have used off-balance sheet securitization transactions to mitigate and diversify our asset risk position and to adjust the asset class mix in our investment portfolio by reinvesting securitization proceeds in accordance with our approved investment guidelines.

We have not used securitization transactions to provide us with additional liquidity, and we do not anticipate using securitization transactions for that purpose in the future. The transactions we have used involved securitizations of some of our receivables and investments that were secured by commercial mortgage loans, fixed maturities or other receivables, consisting primarily of policy loans. Total securitized assets remaining as of December 31, 2004 and December 31, 2003 were \$1.6 billion.

Securitization transactions resulted in net gains, before taxes, of approximately \$43 million and \$29 million for the years ended December 31, 2003 and 2002, respectively, and were included in net realized investment gains (losses) in our financial statements. There were no securitization transactions in the year ended December 31, 2004.

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We have arranged for the assets that we have transferred in securitization transactions to be serviced by us directly or pursuant to arrangements and with General Motors Acceptance Corporation. Servicing activities include ongoing review, credit monitoring, reporting and collection activities.

We have entered into credit support arrangements in connection with our securitization transactions. Pursuant to these arrangements, as of December 31, 2004, we provided limited recourse for a maximum of \$119 million of credit losses. To date, we have not yet been required to make payments under any of these credit support agreements. The agreements will remain in place throughout the life of the related entities.

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GE Capital, our indirect parent and majority stockholder, provides credit and liquidity support to a funding conduit it sponsored, which exposes it to a majority of the risks and rewards of the conduit's activities and therefore makes GE Capital the primary beneficiary of the funding conduit. Upon adoption of FIN 46, GE Capital was required to consolidate the funding conduit because of this financial support. As a result, assets and liabilities of certain previously off-balance sheet securitization entities, for which we were the transferor, were required to be included in our financial statements because the funding conduit no longer qualified as a third party. Because these securitization entities lost their qualifying status, we were required to include \$1.2 billion of securitized assets and \$1.1 billion of associated liabilities in our Statement of Financial Position in July 2003. The assets and liabilities associated with these securitization entities have been reported in the corresponding financial statement captions in our Statement of Financial Position, and the assets are noted as restricted due to the lack of legal control we have over them. These balances will decrease as the assets mature because we will not sell any additional assets to these consolidated entities.

Our inclusion of these assets and liabilities does not change the economic or legal characteristics of the asset sales. Liabilities of these consolidated entities will be repaid with cash flows generated by the related assets. Credit recourse to us remains limited to the credit support described above. We included \$36 million of revenue, \$2 million of general expenses and \$27 million of interest expense associated with these newly consolidated entities in our historical financial statements for the period from July 1 to December 31, 2003. For the year ended December 31, 2004, we included \$64 million of revenue, \$3 million of general expenses and \$47 million of interest expense associated with these entities in our historical financial statements. Our consolidation of these securitization entities had no effect on our previously reported earnings.

The following table summarizes the assets and liabilities associated with the securitization entities we included in our Statement of Financial Position, which are part of our Corporate and Other segment as of the dates indicated:

(Dollar amounts in millions)	December 31,	
	2004	2003
Assets:		
Restricted investments held by securitization entities	\$ 860	\$ 1,069
Other assets	24	65
Total(1)	\$ 884	\$ 1,134
Liabilities:		
Borrowings related to securitization entities	\$ 849	\$ 1,018
Other liabilities	3	59
Total	\$ 852	\$ 1,077

- (1) Includes \$31 million and \$51 million of retained interests in securitized assets as of December 31, 2004 and 2003, respectively, that are consolidated.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. The following is a discussion of our market risk exposures and our risk management practices.

We enter into market-sensitive instruments primarily for purposes other than trading. The carrying value of our investment portfolio as of December 31, 2004 and 2003, was \$66 billion and \$79 billion, respectively, of which 80% and 83%, respectively, was invested in fixed maturities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturities. We mitigate the market risk

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associated with our fixed maturities portfolio by closely matching the duration of our fixed maturities with the duration of the liabilities that those securities are intended to support.

The primary market risk for our long-term borrowings and Equity Units is interest rate risk at the time of maturity or early redemption, when we may be required to refinance these obligations. We continue to monitor the interest rate environment and to evaluate refinancing opportunities as maturity dates approach.

We are exposed to equity risk on our holdings of common stocks and other equities. We manage equity price risk through industry and issuer diversification and asset allocation techniques.

We also have exposure to foreign currency exchange risk. Our international operations generate revenues denominated in local currencies, and we invest cash generated outside the U.S. in non-U.S. denominated securities. Although investing in securities denominated in local currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations into our historical financial statements. We currently do not hedge this exposure. For the years ended December 31, 2004 and 2003, 29% and 26%, respectively, of our net earnings from continuing operations were generated by our international operations.

We use derivative financial instruments, such as interest rate and currency swaps, currency forwards and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate certain risks, including interest rate risk, currency risk and equity risk, by:

reducing the risk between the timing of the receipt of cash and its investment in the market;

matching the currency of invested assets with the liabilities they support;

converting the asset duration to match the duration of the liabilities;

reducing our exposure to fluctuations in equity market indices that underlie some of our products; and

protecting against the early termination of an asset or liability.

As a matter of policy, we have not and will not engage in derivative market-making, speculative derivative trading or other speculative derivatives activities.

Sensitivity analysis

Sensitivity analysis measures the impact of hypothetical changes in interest rates, foreign exchange rates and other market rates or prices on the profitability of market-sensitive financial instruments.

The following discussion about the potential effects of changes in interest rates, foreign currency exchange rates and equity market prices is based on so-called shock-tests, which model the effects of interest rate, foreign exchange rate and equity market price shifts on our financial condition and results of operations. Although we believe shock tests provide the most meaningful analysis permitted by the rules and regulations of the Securities and Exchange Commission, they are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of shock tests for changes in interest rates, foreign currency exchange rates and equity market prices may have some limited use as benchmarks, they should not be viewed as forecasts. These forward-looking disclosures also are selective in nature and address only the potential impacts on our financial instruments. They do not include a variety of other potential factors that could affect our business as a result of these changes in interest rates, currency exchange rates and equity market prices.

One means of assessing exposure of our fixed maturities portfolio to interest rate changes is a duration-based analysis that measures the potential changes in market value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This is sometimes referred to as a parallel shift in the yield curve. Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the market value of our fixed income securities portfolio to decline by approximately \$2.9 billion, based on our securities positions as of December 31, 2004.

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One means of assessing exposure to changes in foreign currency exchange rates is to model effects on reported earnings using a sensitivity analysis. We analyzed our combined currency exposure as of December 31, 2004, including financial instruments designated and effective as hedges to identify assets and liabilities denominated in currencies other than their relevant functional currencies. Net unhedged exposures in each currency were then remeasured, generally assuming a 10% decrease in currency exchange rates compared to the U.S. dollar. Under this model, with all other factors constant, we estimated as of December 31, 2004, that such a decrease would have an insignificant effect on our net earnings from continuing operations.

One means of assessing exposure to changes in equity market prices is to estimate the potential changes in market values on our equity investments resulting from a hypothetical broad-based decline in equity market prices of 10%. Under this model, with all other factors constant, we estimated that such a decline in equity market prices would cause the market value of our equity investments to decline by approximately \$8 million, based on our equity positions as of December 31, 2004. In addition, fluctuations in equity market prices affect our revenues and returns from our separate account and private asset management products, which depend upon fees that are related primarily to the value of assets under management.

Counterparty credit risk

We manage counterparty credit risk on an individual counterparty basis, which means that gains and losses are netted for each counterparty to determine the amount at risk. When a counterparty exceeds credit exposure limits (see table below) in terms of amounts owed to us, typically as the result of changes in market conditions, no additional transactions are executed until the exposure with that counterparty is reduced to an amount that is within the established limit. All swaps are executed under master swap agreements containing mutual credit downgrade provisions that provide the ability to require assignment or termination in the event either party is downgraded below Moody's A3 or S&P's A-.

Swaps, purchased options and forwards with contractual maturities longer than one year are conducted within the credit policy constraints provided in the table below. Our policy permits us to enter into derivative transactions with counterparties rated A3 by Moody's and A- by S&P if the agreements governing such transactions require both parties to provide collateral in certain circumstances. Our policy further requires foreign exchange forwards with contractual maturities shorter than one year to be executed with counterparties having a credit rating by Moody's of A-1 and by S&P of P-1 and the credit limit for these transactions is \$150 million per counterparty.

Counterparty credit criteria

	Credit Rating	
	Moody's	Standard & Poor's
Term of transaction		
Up to five years	Aa3	AA-
Greater than five years	Aaa	AAA
Credit exposure limit without collateral(1)		
Up to \$50 million	Aa3	AA-
Up to \$75 million	Aaa	AAA
Credit exposure limit with collateral(1)		
Up to \$5 million	A3	A-

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Up to \$50 million	Aa3	AA-
Up to \$100 million	Aaa	AAA

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- (1) Credit exposure limits noted in this table are set by GE Capital and apply in the aggregate to all companies that are consolidated into GE Capital.

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The following table sets forth an analysis of our counterparty credit risk exposures net of collateral held as of the dates indicated:

Moody's Rating	December 31,		
	2004	2003	2002
Aaa	88%	95%	91%
Aa	10%	5%	9%
A	2%	%	%
	100%	100%	100%

Seasonality

In general, our business as a whole is not seasonal in nature. However, in our Mortgage Insurance segment, the level of defaults, which increases the likelihood of losses, tends to decrease in the first and second quarters of the calendar year and increase in the third and fourth quarters. As a result, we have experienced lower levels of losses resulting from defaults in the first and second quarters, as compared with the third and fourth quarters.

Inflation

We do not believe that inflation has had a material effect on our historical results of operations, except insofar as inflation may affect interest rates.

New Accounting Standards*Currently effective*

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-1 (SOP 03-1), *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*, which we adopted on January 1, 2004. SOP 03-1 provides guidance on separate account presentation and valuation, accounting for sales inducements to contractholders and classification and valuation of long-duration contract liabilities. Prior to adopting SOP 03-1 we held reserves for the higher-tier annuitization benefit on two-tiered annuities. To record these reserves in accordance with SOP 03-1, we released \$10 million, or 7%, of our two-tiered annuity reserves and \$3 million of guaranteed minimum death benefit reserves. After giving effect to the impact of additional amortization of deferred acquisition costs related to these reserve releases, we recorded a \$5 million benefit in cumulative effect of accounting changes, net of taxes, which is not reflected in net earnings from continuing operations.

Accounting pronouncements not yet adopted

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R *Share-Based Payments - an amendment of FASB Statements No. 123 and 95*, which we will adopt on July 1, 2005. This statement provides additional guidance on accounting for share based payments and will require all such awards to be measured at fair value with the related compensation cost recognized in income on a prospective basis. We currently recognize compensation cost using the fair value method for all stock based awards issued after January 1, 2002 and do not expect the adoption of SFAS 123R to have a material impact on our results of operations or financial condition.

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Corporate Reorganization

Our History

Prior to the completion of the IPO, our businesses were owned by GE, a global diversified technology and services company. In the 1980s and 1990s, GE pursued a strategy of developing and acquiring insurance businesses, targeting attractive segments that included the U.S. and international mortgage and life insurance markets.

We entered the U.S. mortgage insurance business in 1981 through a start-up in Cincinnati, Ohio. In 1983, we acquired a competitor, American Mortgage Insurance, located in Raleigh, North Carolina and moved our mortgage insurance headquarters there. In the late 1980s and early 1990s, we acquired several other U.S. mortgage insurers or their books of business. We also acquired mortgage insurance operations in Canada and Australia and launched a start-up business in Europe as part of our strategy to expand into international markets.

We entered the life insurance business in 1993 through our acquisition of GNA Corp., a leading provider of annuities through the bank distribution channel. From 1993 to 2000, we successfully completed the acquisition and integration of 13 key businesses, which significantly expanded the breadth of our product offerings and the scope of our distribution capabilities. We maintained a disciplined focus on effectively integrating the operations of each business we acquired.

In recent years, we have been reviewing our businesses, with the objective of focusing on segments where we have competitive advantage and the greatest potential for growth and returns on capital. We began to redeploy our capital in accordance with that strategy in 2002 and have exited certain product lines, distribution relationships and business units where we lacked long-term competitive advantage, could not deploy capital efficiently or could not achieve our targeted returns. In August 2003, we sold our Japanese life insurance operations and our domestic auto and homeowners' insurance businesses to American International Group, Inc. We also repriced certain products for higher risk-adjusted margins and lowered production targets for products that were not achieving our targeted returns on capital. At the same time, GE has been reviewing its long-term strategy and has actively sought to reduce its investment in insurance businesses and redeploy some of the capital required by those businesses to its other businesses. For example, in December 2003, GE sold substantially all of its financial guaranty insurance business to a consortium led by The PMI Group, Inc.

We have benefited from GE's commitment to operational execution, continuous process improvement, cost productivity, risk management, technology and development of managerial talent. We believe these skills and values provide us with a significant competitive advantage, and we intend to retain them as an integral part of our culture. We also believe our independence from GE provides us with a number of benefits, allowing us to:

execute a strategy for our insurance business independent from GE's overall corporate strategy;

obtain direct access to capital markets;

use our stock for selective acquisitions; and

align employee incentive plans more closely with the performance of our company.

Formation of Genworth Financial, Inc.

We were incorporated in Delaware on October 23, 2003 in preparation for our corporate reorganization and the IPO. We were incorporated solely for this purpose and until our corporate reorganization and IPO did not engage in any activities, except in preparation for our corporate reorganization and the IPO, which was completed on May 28, 2004.

In connection with the IPO, we acquired substantially all of the assets and liabilities of GEFAHI. GEFAHI is an indirect subsidiary of GE and until the IPO was a holding company for a group of companies that provide

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life insurance, long-term care insurance, group life and health insurance, annuities and other investment products and U.S. mortgage insurance. We also acquired certain other insurance businesses that were owned by other GE subsidiaries but managed by members of the Genworth management team. These businesses include international mortgage insurance, payment protection insurance based in Europe, Viking Insurance Company, which is a Bermuda-based reinsurer primarily of leased equipment insurance and consumer credit insurance, and mortgage contract underwriting.

In consideration for the assets that we acquired and the liabilities that we assumed in connection with our corporate reorganization, we issued to GEFAHI the following securities:

489.5 million shares of our Class B Common Stock. For a description of the terms of our common stock, see [Description of Capital Stock](#) [Common Stock](#). GEFAHI sold 146.44 million shares of our Class A Common Stock (which were converted from an equal number of shares of Class B Common Stock) in the IPO.

\$600 million of our Equity Units. For a description of the terms of our Equity Units, see [Description of Equity Units](#). GEFAHI sold all the Equity Units in a public offering concurrent with the IPO.

\$100 million of our Series A Preferred Stock. For a description of the terms of our Series A Preferred Stock, see [Description of Capital Stock](#) [Preferred Stock](#) [Series A Preferred Stock](#). GEFAHI sold all the Series A Preferred Stock in a public offering concurrent with the IPO.

A \$2.4 billion note. We repaid this note upon the completion of the IPO with borrowings under a short-term credit facility. We repaid those borrowings shortly thereafter with proceeds from our offerings of \$1.9 billion of senior notes and \$500 million of commercial paper. See [Description of Certain Indebtedness](#) [Senior Notes](#) and [Description of Certain Indebtedness](#) [Commercial Paper](#).

The \$550 million Contingent Note. We repaid the Contingent Note in December 2004. For a description of the terms of this note, see [Arrangements Between GE and Our Company](#) [Contingent Note](#).

The liabilities we assumed from GEFAHI include the Yen Notes, which are ¥60 billion aggregate principal amount of 1.6% notes due 2011 that had been issued by GEFAHI, ¥3 billion of which GEFAHI held and transferred to us in connection with our corporate reorganization. In the third quarter of 2004, we retired the ¥3 billion of Yen Notes that were transferred to us. We have entered into arrangements to swap our obligations under the Yen Notes to a U.S. dollar obligation with a principal amount of \$491 million and bearing interest at a rate of 4.84% per annum.

Prior to the completion of the IPO, GEFAHI owned 100% of our outstanding common stock, which consisted solely of Class B Common Stock. Shares of Class B Common Stock convert automatically into shares of Class A Common Stock when they are held by any person other than GE or an affiliate of GE or when GE no longer beneficially owns at least 10% of our outstanding common stock. As a result, all the shares 146.44 million shares of common stock offered in the IPO consisted of Class A Common Stock. Upon the completion of the IPO, GE beneficially owned (through GEFAHI) approximately 70% of our outstanding common stock. After the IPO and prior to the completion of this offering, GE has not sold any additional shares of our common stock. GE has indicated that it expects, subject to market conditions, to reduce its ownership over the next two years as we transition to full independence.

In connection with the IPO, we entered into a number of arrangements with GE governing our separation from GE and a variety of transition and other matters, including our relationship with GE while GE remains a significant stockholder in our company. These arrangements include several significant reinsurance transactions with Union Fidelity Life Insurance Company, or UFLIC, an indirect subsidiary of GE. As part of

these transactions, we ceded to UFLIC, effective as of January 1, 2004, policy obligations under our structured settlement contracts, which had reserves of \$12.0 billion, and our variable annuity contracts, which had general account reserves of \$2.8 billion and separate account reserves of \$7.9 billion, each as of December 31, 2003.

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These contracts represented substantially all of our contracts that were in force as of December 31, 2003 for these products. In addition, effective as of January 1, 2004, we ceded to UFLIC policy obligations under a block of long-term care insurance policies that we reinsured from Travelers, which had reserves of \$1.5 billion, as of December 31, 2003. In the aggregate, these blocks of business did not meet our target return thresholds, and although we remain liable under these contracts and policies as the ceding insurer, the reinsurance transactions have the effect of transferring the financial results of the reinsured blocks to UFLIC. We are continuing new sales of structured settlement, variable annuity and long-term care insurance products, and we expect to achieve our targeted returns on these new sales. In addition, we continue to service the blocks of business that we reinsured, which preserves our operating scale and enables us to service and grow our new sales of these products. See Arrangements Between GE and Our Company.

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Business

Overview

We are a leading insurance company in the U.S., with an expanding international presence, serving the life and lifestyle protection, retirement income, investment and mortgage insurance needs of more than 15 million customers. We have leadership positions in key products that we expect will benefit from a number of significant demographic, governmental and market trends. We distribute our products and services through an extensive and diversified distribution network that includes financial intermediaries, independent producers and dedicated sales specialists. We conduct operations in 22 countries and have approximately 6,150 employees.

We have the following three operating segments:

Protection. We offer U.S. customers life insurance, long-term care insurance and, primarily for companies with fewer than 1,000 employees, group life and health insurance. In Europe, we offer payment protection insurance, which helps consumers meet their payment obligations in the event of illness, involuntary unemployment, disability or death. In 2004, we were the leading provider of individual long-term care insurance and a leading provider of term life insurance in the U.S., according to LIMRA International (in each case based upon annualized first-year premiums). We believe we are a leading provider of term life insurance through brokerage general agencies in the U.S. and that this channel is the largest and fastest-growing distribution channel for term life insurance. Our leadership in long-term care insurance is based upon 30 years of product underwriting and claims experience. This experience has enabled us to build and benefit from what we believe is the largest actuarial database in the long-term care insurance industry. For the year ended December 31, 2004, our Protection segment had pro forma segment net earnings of \$527 million.

Retirement Income and Investments. We offer U.S. customers fixed and variable deferred annuities, income annuities, variable life insurance, asset management, and specialized products, including guaranteed investment contracts, or GICs, funding agreements and structured settlements. We are an established provider of these products. In 2004, according to VARDS, we were the largest provider of variable income annuities in the U.S., and according to LIMRA International, we were the second-largest provider of fixed income annuities in the U.S. (in each case based upon total premiums and deposits). For the year ended December 31, 2004, our Retirement Income and Investments segment had pro forma segment net earnings of \$148 million.

Mortgage Insurance. In the U.S., Canada, Australia, New Zealand and Europe, we offer mortgage insurance products that facilitate homeownership by enabling borrowers to buy homes with low-down-payment mortgages. These products generally also aid financial institutions in managing their capital efficiently by reducing the capital required for low-down-payment mortgages. According to *Inside Mortgage Finance*, in 2004, we were the fifth-largest provider of mortgage insurance in the U.S. (based upon new insurance written). We also believe we are the largest provider of private mortgage insurance outside the U.S. (based upon flow new insurance written), with leading mortgage insurance operations in Canada, Australia and the U.K. and a growing presence in Continental Europe. The net premiums written in our international mortgage insurance business have increased by a compound annual growth rate of 45% for the three years ended December 31, 2004. For the year ended December 31, 2004, our Mortgage Insurance segment had pro forma segment net earnings of \$426 million.

We also have a Corporate and Other segment which consists primarily of unallocated corporate income and expenses (including amounts incurred in settlement of class action lawsuits), the results of several small, non-core businesses that are managed outside our operating segments, most of our interest and other financing expenses and net realized investment gains (losses). For the year ended December 31, 2004, our Corporate and Other segment had pro forma segment net earnings of \$29 million.

We had \$12.9 billion of total stockholders' interest and \$103.9 billion of total assets as of December 31, 2004. For the year ended December 31, 2004, on a pro forma basis, our revenues were \$10.2 billion and our net

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earnings from continuing operations were \$1.1 billion. Our principal life insurance companies have financial strength ratings of AA- (Very Strong) from S&P, Aa3 (Excellent) from Moody's, A+ (Superior) from A.M. Best and AA- (Very Strong) from Fitch, and our rated mortgage insurance companies have financial strength ratings of AA (Very Strong) from S&P, Aa2 (Excellent) from Moody's and AA (Very Strong) from Fitch. The AA and AA- ratings are the third- and fourth-highest of S&P's 20 ratings categories, respectively. The Aa2 and Aa3 ratings are the third- and fourth-highest of Moody's 21 ratings categories, respectively. The A+ rating is the second-highest of A.M. Best's 15 ratings categories. The AA and AA- ratings are the third- and fourth-highest of Fitch's 24 ratings categories, respectively.

Market Environment and Opportunities

We believe we are well positioned to benefit from a number of significant demographic, governmental and market trends, including the following:

Aging U.S. population with growing retirement income needs. According to the U.S. Social Security Administration, from 1945 to 2003, U.S. life expectancy at birth increased from 62.9 years to 74.4 years for men and from 68.4 years to 79.5 years for women, respectively, and life expectancy is expected to increase further. In addition, increasing numbers of baby boomers are approaching retirement age. The U.S. Census Bureau projects that the percentage of the U.S. population aged 55 or older will increase from approximately 22% (65 million) in 2004 to more than 29% (97 million) in 2020. These increases in life expectancy and the average age of the U.S. population heighten the risk that individuals will outlive their retirement savings. In addition, approximately \$4.4 trillion of invested financial assets (25% of all U.S. invested financial assets) are held by people within 10 years of retirement and will be available to be converted to income as those people retire, and approximately \$3.3 trillion of invested financial assets are held by individuals who are under age 70 and consider themselves retired, in each case according to a survey conducted by SRI Consulting Business Intelligence in 2002. We believe these trends will lead to growing demand for products, such as our income annuities and other investment products, that help consumers accumulate assets and provide reliable retirement income.

Growing lifestyle protection gap. The aging U.S. population and a number of other factors are creating a significant lifestyle protection gap for a growing number of individuals. This gap is the result of individuals not having sufficient resources, including insurance coverage, to ensure that their future assets and income will be adequate to support their desired lifestyle. Other factors contributing to this gap include declining individual savings rates, rising healthcare and nursing care costs, and a shifting of the burden for funding protection needs from governments and employers to individuals. For example, many companies have reduced employer-paid benefits in recent years, and the Social Security Administration projected in 2004 that the annual costs of Social Security will exceed the program's tax revenue under current law in 2019, creating the potential for both long-term benefit reductions from these traditional sources and the need for individuals to identify alternative sources for these benefits. In addition, according to the U.S. Bureau of Economic Analysis, personal savings rates decreased from 10.8% in 1984 to 1.0% in 2004. Consumers are exposed to the rising costs of healthcare and nursing care during their retirement years, and some experts believe that many consumers are underinsured with respect to their protection needs. For example, according to the American Society on Aging and Conning Research & Consulting, approximately 70% of individuals in the U.S. age 65 and older will require long-term care at some time in their lives. However, in 2003, less than 10% of the individuals in the U.S. age 55 and older had long-term care insurance, according to statistics published by LIMRA International and the U.S. Census Bureau. Moreover, the most recent Survey of Consumer Finances conducted by the Federal Reserve Board found that the median household's life insurance coverage decreased in recent years to 1.4 times household income, which we believe leaves a significant life insurance protection gap for individuals and families. We expect these trends to result in increased demand for our life, long-term care and small group life and health insurance products.

Increasing opportunities for mortgage insurance internationally and in the U.S. We believe a number of factors have contributed and will contribute to the growth of mortgage insurance in Canada, Australia

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and the U.S., where we have significant mortgage insurance operations. These factors include increasing homeownership levels (spurred in part by government housing policies that favor homeownership and demographic factors driving demand for housing); expansion of low-down-payment mortgage loan offerings; legislative and regulatory policies that provide capital incentives for lenders to transfer the risks of low-down-payment mortgages to mortgage insurers; and expansion of secondary mortgage markets that require credit enhancements, such as mortgage insurance. We believe a number of these factors also are becoming evident in some European, Latin American and Asian markets, where lenders increasingly are using mortgage insurance to manage the risks of their loan portfolios and to expand low-down-payment lending.

Competitive Strengths

We believe the following competitive strengths will enable us to capitalize on opportunities in our targeted markets:

Leading positions in diversified targeted markets. We have established leading positions in our targeted markets. In our Protection segment, we are a leading provider of several core products including individual long-term care insurance and term life insurance in the U.S. and payment protection insurance in Europe. In our Retirement Income and Investments segment, we are a leading provider of income annuities. In our international Mortgage Insurance business, we have leading operations in Canada, Australia and the U.K., with a growing presence in Continental Europe. We believe our leading positions provide us with the scale necessary to compete effectively in these markets as they grow. We also believe our strong presence in multiple markets provides balance to our business, reduces our exposure to adverse economic trends affecting any one market and provides stable cash flow to fund growth opportunities.

Product innovation and breadth. We have a tradition of developing innovative financial products to serve the needs of our customers. For example, we were the first to introduce long-term care insurance plans that enable married couples to share long-term care insurance benefits. We also introduced the Income Distribution Series of guaranteed income annuity products and riders that provide the contractholder with a guaranteed minimum income stream and an opportunity to participate in market appreciation. In our U.S. mortgage insurance business, we recently introduced our HomeOpenersSM products, which are designed, in part, to compete with simultaneous second loans. We offer a breadth of products that 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 believe our reputation for innovation and our breadth of products enable us to sustain strong relationships with our distributors. They also position us to benefit from the current trend among distributors to reduce the number of insurers with whom they maintain relationships, while at the same time providing distributors continued access to a breadth of products.

Extensive, multi-channel distribution network. We have extensive distribution reach and offer consumers access to our products through a broad network of financial intermediaries, independent producers and dedicated sales specialists. In addition, we maintain strong 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. We also offer a joint business improvement program, through which we help our independent sales intermediaries increase sales and realize greater cost and operational efficiencies in their businesses.

Technology-enhanced, scalable, low-cost operating platform. We have pursued an aggressive approach to cost-management and continuous process improvement. We employ an extensive array of cost management disciplines, forming dedicated teams to identify opportunities for cost reductions and the continuous improvement of business processes. This has enabled us to reduce our recurring operating expenses and provide funds for new growth and technology investments. We also have developed

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sophisticated technology 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. For example, we have developed a proprietary digital platform that automates our term life and long-term care insurance new business processing and improves the consistency and accuracy of our underwriting decisions. This platform has shortened the cycle time from receipt-of-application to issuance-of-policy and reduced policy acquisition costs. In addition, we have centralized our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. Through an outsourcing provider that is 40% owned by GE, we also have a substantial team of professionals in India who provide us with a variety of support services.

Disciplined risk management with strong compliance practices. Risk management and regulatory compliance are critical parts of our business, and we are recognized in the insurance industry for our excellence in these areas. We employ comprehensive risk management processes in virtually every aspect of our operations, including product development, underwriting, investment management, asset-liability management and technology development programs. We have an experienced group of more than 150 professionals dedicated exclusively to our risk management processes. We believe our disciplined risk management processes have enabled us to avoid a number of the pricing and product design pitfalls that have affected other participants in the insurance industry. For example, we have not offered a traditional guaranteed minimum income benefit with our variable annuities as offered by many of our competitors because we concluded the exposures inherent in these benefits exceed our permissible risk tolerance. In our mortgage insurance business, we have substantially limited our exposure to the riskier portions of the bulk and sub-prime mortgage insurance market. We take a similar disciplined approach to legal and regulatory compliance. Throughout our company we instill a strong commitment to integrity in business dealings and compliance with applicable laws and regulations.

Strong balance sheet and high-quality investment portfolio. We believe our size, ratings and capital strength provide us with a significant competitive advantage. We have a diversified, high-quality investment portfolio with \$65.7 billion of invested assets, as of December 31, 2004. Approximately 94% of our fixed maturities had ratings equivalent to investment-grade, and less than 1% of our total investment portfolio consisted of equity securities, as of December 31, 2004. We also actively manage the relationship between our investment assets and our insurance liabilities. Our prudent approach to managing our balance sheet reflects our commitment to maintaining financial strength.

Experienced and deep management team. Our senior management team has an average of approximately 18 years of experience in the financial services industry. We have an established track record for successfully developing managerial talent at all levels of our organization and have instilled a performance- and execution-oriented corporate culture.

Growth Strategies

Our objective is to increase operating earnings and enhance returns on equity. We intend to pursue this objective by focusing on the following strategies:

Capitalize on attractive growth trends in three key markets. We have positioned our product portfolio and distribution relationships to capitalize on the attractive growth prospects in three key markets:

Retirement income, where we believe growth will be driven by a variety of favorable demographic trends and the approximately \$4.4 trillion of invested financial assets in the U.S. that are held by people within 10 years of retirement and \$3.3 trillion of invested assets that are held by individuals who are under age 70 and consider themselves retired, in each case according to SRI Consulting Business Intelligence. Our products are designed to enable the growing retired population to convert their accumulated assets into reliable income throughout their retirement years.

Protection, particularly long-term care insurance and payment protection insurance. In long-term care insurance, we believe growth will be driven by the increasing protection needs of the

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expanding aging population and a shifting of the burden for funding these needs from governments and employers to individuals. For example, according to the American Society on Aging and Conning Research & Consulting, approximately 70% of individuals in the U.S. age 65 and older will require long-term care at some time in their lives, but in 2003, less than 10% of the individuals in the U.S. age 55 and older had long-term care insurance. In our payment protection insurance business, we believe market growth will result from the increase in consumer borrowing across Europe, the expansion of the European Union and reduced unemployment benefits in the European markets where we offer our products.

International mortgage insurance, where we continue to see attractive growth opportunities with the expansion of homeownership and low-down-payment loans. The net premiums written in our international mortgage insurance business have increased by a compound annual growth rate of 45% for the three years ended December 31, 2004.

Further strengthen and extend our distribution channels. We intend to further strengthen and extend our distribution channels by continuing to differentiate ourselves in areas where we believe we have distinct competitive advantages. These areas include:

Product and service innovations, as evidenced by new product introductions, such as the introduction of our Income Distribution Series of guaranteed income products and riders, our private mortgage insurance products in the European market, and our service innovations, which include programs such as our policyholder wellness initiatives in our long-term care insurance business and our automated underwriting platform in our mortgage insurance business.

Collaborative approach to key distributors, which includes our joint business improvement program and our tailored approach to our sales intermediaries addressing their unique service needs, which have benefited our distributors and helped strengthen our relationships with them.

Technology initiatives, such as our proprietary underwriting system, which has made it easier for distributors to do business with us, improved our term life and long-term care insurance underwriting speed and accuracy, and lowered our operating costs.

Enhance returns on capital and increase margins. We believe we will be able to enhance our returns on capital and increase our margins through the following means:

Adding new business layers at targeted returns and optimizing mix. We have introduced revised pricing and new products in a number of business lines, which we believe will increase our expected returns. In U.S. mortgage insurance, we are targeting market segments in which we can generate new business at higher returns and limiting our growth from segments that have lower returns. We have exited or placed in run-off certain product lines in blocks of business with low returns, including, for example, our older, fixed GICs, facility-only long-term care insurance policies and certain payment protection insurance contracts, mostly in the U.K. As these blocks decrease, we expect to release capital over time to deploy to higher-return products and/or businesses.

Capital efficiency and management. We continually seek opportunities to use our capital more efficiently, while maintaining our ratings and strong capital position. We have developed a capital markets solution to fund additional statutory reserves on our term life insurance policies related to Regulation XXX, and we are working to develop similar structures for other product lines, including universal life insurance. In addition, we intend to complement our core growth strategy through selective acquisitions designed to enhance product and distribution capabilities and returns, the breadth of our product portfolio, or our distribution reach. We have successfully completed the acquisition and integration of 13 key businesses since 1993. In addition to pursuing opportunities for core growth and accretive acquisitions, we also will consider making share repurchases and increasing dividends on our common stock.

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Investment income enhancements. The yield on our investment portfolio is affected by the practice, prior to our separation from GE, of realizing investment gains through the sale of appreciated securities and other assets during a period of historically low interest rates. This strategy had been pursued to offset impairments in our investment portfolio, fund consolidations and restructurings in our business and provide current income. As an independent public company, our investment strategy is to optimize investment income without relying on realized investment gains. Although the interest-rate environment since our IPO in mid-2004 has been challenging, we expect over time that the yield on our investment portfolio will stabilize, with the potential for yield increases in a rising interest rate environment. We also will seek to improve our investment yield by continuously evaluating our asset class mix, pursuing additional investment classes and accepting additional credit risk when we believe that it is prudent to do so.

Ongoing operating cost reductions and efficiencies. We continually focus on reducing our cost base while maintaining strong service levels for our customers. We expect to accomplish this goal in each of our operating units through a wide range of cost management disciplines, including consolidating operations, using low-cost operating locations, reducing supplier costs, leveraging process improvement efforts, forming focused teams to identify opportunities for cost reductions and investing in new technology, particularly for web-based, digital end-to-end processes.

Protection

Through our Protection segment, we offer life insurance, long-term care insurance, payment protection insurance and employment-based group life and health insurance. The following table sets forth, on an actual and pro forma basis, selected financial information regarding our Protection segment as of the dates and for the periods indicated:

(Dollar amounts in millions)	Historical			Pro forma
	As of or for the years			
	ended December 31,			For the year ended December 31,
	2004	2003	2002	2004
Net earned premiums				
Life insurance	\$ 759	\$ 698	\$ 685	\$ 759
Long-term care insurance	1,672	1,775	1,543	1,589
Payment protection insurance	1,427	1,507	1,242	1,427
Group life and health insurance	623	608	618	623
Total net earned premiums	\$ 4,481	\$ 4,588	\$ 4,088	\$ 4,398
Revenues, net of reinsurance				
Life insurance	\$ 1,518	\$ 1,443	\$ 1,432	\$ 1,518
Long-term care insurance	2,311	2,408	2,087	2,182
Payment protection insurance	1,549	1,615	1,372	1,549
Group life and health insurance	686	677	714	686
Total revenues, net of reinsurance	\$ 6,064	\$ 6,143	\$ 5,605	\$ 5,935
Segment net earnings				
Life insurance	\$ 245	\$ 211	\$ 252	\$ 245

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Long-term care insurance	172	171	164	171
Payment protection insurance	81	64	82	81
Group life and health insurance	30	41	56	30
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total segment net earnings	\$ 528	\$ 487	\$ 554	\$ 527
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total segment assets	\$ 31,806	\$ 29,254	\$ 27,104	
	<u> </u>	<u> </u>	<u> </u>	

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Life insurance

Overview

Life insurance provides protection against financial hardship after the death of an insured by providing cash payments to the beneficiaries of the policyholder. According to the American Council of Life Insurers, sales of new life insurance coverage in the U.S. were \$2.9 trillion in 2003, and total life insurance coverage in the U.S. was \$16.8 trillion as of December 31, 2003. Excluding variable life insurance, the sales of which have been adversely affected by recent stock market volatility, annualized first-year premiums for life insurance increased by an average of 14.7% per year from 2000 to 2003, according to LIMRA International.

Our principal life insurance product is term life, which provides life insurance coverage with guaranteed level premiums for a specified period of time with little or no buildup of cash value that is payable upon lapse of the coverage. We have been a leading provider of term life insurance for more than two decades, and we believe we are a leading provider of term life insurance through brokerage general agencies in the U.S. In addition to term life insurance, we offer universal life insurance products, which are designed to provide protection for the entire life of the insured and may include a buildup of cash value that can be used to meet the policyholder's particular financial needs during his lifetime. Our life insurance business also includes a run-off block of whole life insurance.

We price our insurance policies based primarily upon our own historical experience in the risk categories that we target. Our pricing strategy is to target individuals in preferred risk categories and offer them attractive products at competitive prices. Preferred risks 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 for people who meet our underwriting criteria.

We have been able to improve our returns on equity on new business by implementing pricing, reinsurance and capital management actions in response to Regulation XXX, which requires insurers to establish additional statutory reserves for term and universal life insurance policies with long-term premium guarantees. Virtually all our newly issued term and universal life insurance business is now affected by Regulation XXX.

We offer our life insurance products primarily through an extensive network of independent brokerage general agencies located throughout the U.S. We also offer our life insurance products through affluent market producer groups and financial intermediaries. We believe there are opportunities to expand our sales through each of these distribution channels.

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The following table sets forth selected financial information regarding our life insurance products as of the dates and for the periods indicated:

(Dollar amounts in millions)	As of or for the years ended		
	December 31,		
	2004	2003	2002
Term life insurance			
Net earned premiums	\$ 721	\$ 664	\$ 635
Annualized first-year premiums(1)	102	106	138
Revenues, net of reinsurance	831	746	720
Life insurance in force, net of reinsurance (face amount)	329,014	296,942	263,622
Life insurance in force, before reinsurance (face amount)	481,985	457,738	416,305
Universal and whole life insurance			
Net earned premiums and deposits	373	402	406
Annualized first-year deposits(1)	42	57	57
Revenues, net of reinsurance	687	697	712
Life insurance in force, net of reinsurance (face amount)	41,745	43,726	44,663
Life insurance in force, before reinsurance (face amount)	50,775	53,074	54,587
Total life insurance(2)			
Net earned premiums and deposits	1,094	1,066	1,041
Annualized first-year premiums(1)	102	106	138
Annualized first-year deposits(1)	42	57	57
Revenues, net of reinsurance	1,518	1,443	1,432
Life insurance in force, net of reinsurance (face amount)	370,759	340,668	308,285
Life insurance in force, before reinsurance (face amount)	532,760	510,812	470,892

- (1) Annualized first-year premiums for term life insurance and deposits for universal life insurance reflect the amount of business we generated during each period shown and do not include renewal premiums or deposits on policies written during prior periods. We consider annualized first-year premiums and deposits to be a measure of our operating performance because they represent a measure of new sales of insurance policies during a specified period, rather than a measure of our revenues or profitability during that period. This operating measure enables us to compare our operating performance across periods without regard to revenues or profitability related to policies sold in prior periods or from investments or other sources.
- (2) Excludes life insurance written through our group life and health insurance business, a corporate-owned life insurance run-off block managed by our long-term care insurance business and variable life insurance written through our Retirement Income and Investments segment.

Products*Term life insurance*

Our term life insurance policies provide a death benefit if the insured dies while the coverage is in force. Term life policies lapse with little or no required payment by us at the end of the coverage period if the insured is still alive. We also offer policyholders the right to convert most of our term insurance policies to specified universal or variable universal life insurance policies issued by us. We seek to reduce the mortality risk associated with conversion by restricting its availability to certain ages and by limiting the period during which the conversion option can be exercised.

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Our primary term life insurance products have guaranteed level premiums for initial terms of 5, 10, 15, 20 or 30 years. In addition, our 5-year products offer, at the end of the initial term, a second 5-year term of level premiums, which may or may not be guaranteed. After the guaranteed period expires, premiums increase annually and the policyholder has the option to continue under the current policy by paying the increased premiums without demonstrating insurability or qualifying for a new policy by submitting again to the

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underwriting process. Coverage continues until the insured reaches the policy expiration age or the policyholder ceases to make premium payments or otherwise terminates the policy, including potentially converting to a permanent plan of insurance. The termination of coverage is called a lapse. For newer policies, we seek to reduce lapses at the end of the guaranteed period by gradually grading premiums to the attained age scale of the insured over the five years following the guaranteed period. After this phase-in period, premiums continue to increase as the insured ages.

Universal life insurance

Our universal life insurance policies provide policyholders with lifetime death benefit coverage, the ability to accumulate assets on a flexible, tax-deferred basis, and the option to access the cash value of the policy through a policy loan, partial withdrawal or full surrender. Our universal life products allow policyholders to adjust the timing and amount of premium payments. We credit premiums paid, less certain expenses, to the policyholder's account and from that account deduct regular expense charges and certain risk charges, known as cost of insurance, which generally increase from year to year as the insured ages. Our universal life insurance policies accumulate cash value that we pay to the insured when the policy lapses or is surrendered. Most of our universal life policies also include provisions for surrender charges for early termination and partial withdrawals. As of December 31, 2004, 53% of our in-force block of universal life insurance was subject to surrender charges. We also sell joint, second-to-die policies that are typically used for estate planning purposes. These policies insure two lives rather than one, with the policy proceeds paid after the death of both insured individuals.

We credit interest on policyholder account balances at a rate determined by us, but not less than a contractually guaranteed minimum. Our in-force universal life insurance policies generally have minimum guaranteed crediting rates ranging from 3.0% to 6.0% for the life of the policy.

Underwriting and pricing

We believe effective underwriting and pricing are significant drivers of the profitability of our life insurance business, and we have established rigorous underwriting and pricing practices to maximize our profitability. We retain most of the risk we currently underwrite, thereby minimizing the premiums ceded to reinsurers. We generally reinsure risks in excess of \$1 million per life, and the reinsured amount is generally based on the policy amount at the time of issue. We set pricing assumptions for expected claims, lapses, investment returns, expenses and customer demographics based on our own relevant experience and other factors. Our strategy is to price our products competitively for our target risk categories and not necessarily to be equally competitive in all categories.

Our current underwriting guidelines place each insurable life insurance applicant in one of eight primary risk categories, depending upon current health, medical history and other factors. Each of these eight categories has specific health criteria, including the applicant's history of using nicotine products. We consider each life insurance application individually and apply our guidelines to place each applicant in the appropriate risk category, regardless of face value or net amount at risk. We may decline an applicant's request for coverage if his health or lifestyle assessment is unacceptable to us. We do not delegate underwriting decisions to independent sales intermediaries. Instead, all underwriting decisions are made by our own underwriting personnel or by our automated underwriting system. We often share information with our reinsurers to gain their insights on potential mortality and underwriting risks and to benefit from their broad expertise. We use the information we obtain from the reinsurers to help us develop effective strategies to manage those risks.

A key part of our life insurance underwriting program is the streamlined, technology-enhanced process called GENIUS[®], which automates new business processing for term life insurance. GENIUS[®] has shortened the cycle time from receipt-of-application to issuance-of-policy, reduced

policy acquisition costs and improved the consistency and accuracy of our underwriting decisions by reducing decision-making variation.

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Long-term care insurance

Overview

We offer individual long-term care insurance products that provide protection against the high and escalating costs of long-term health care provided in the insured's home and in assisted living and nursing facilities. Insureds become eligible for benefits when they are incapable of performing certain activities of daily living or when they become cognitively impaired. In contrast to health insurance, long-term care insurance provides coverage for skilled and custodial care provided outside of a hospital. The typical claim covers a duration of care of 3 to 24 months.

We were the leading provider of individual long-term care insurance in 2004, according to LIMRA International, based upon number of policies sold and annualized first-year premiums. We established ourselves as a pioneer in long-term care insurance 30 years ago. Since that time, we have accumulated extensive pricing and claims experience, which we believe is the most comprehensive in the industry and has enabled us to build what we believe is the largest actuarial database in the industry. We believe our experience gives us a deep understanding of what is required for long term, consistent success and has enabled us to develop a disciplined growth strategy built on a foundation of strong risk management, product innovation and a diversified distribution strategy.

Total individual long-term care insurance premiums for in-force policies in the U.S. increased from approximately \$2.4 billion in 1997 to \$6.8 billion in 2004, according to LIMRA International. Industry-wide sales of individual long-term care insurance peaked in 2002 at approximately \$1.0 billion and decreased by 7% in 2003 and 25% in 2004. We believe this decrease was due primarily to decisions by several providers to cease offering long-term care insurance, to raise premiums on in force-policies, and to introduce new products with higher prices. These actions resulted in decreased purchases of long-term care insurance products and have caused some distributors to reduce their sales focus on these products. Notwithstanding these recent trends, we believe that over time, the long-term care insurance market will continue to expand as the result of aging demographics, increasing healthcare and nursing care costs, the uncertainty regarding government programs that currently cover these costs and the increasing public awareness of the benefits of private long-term care insurance.

As the leading provider of individual long-term care insurance, we have made significant investments to further the education and awareness of the benefits of long-term care insurance. Examples of these investments include the national sponsorship of the Alzheimer's Association annual Memory Walk, the creation of a national long-term care awareness day, and free access to our Center for Financial Learning website. In 2004, we also entered into a strategic alliance with the Corporation for Long-Term Care Certification, Inc., a nationally recognized long-term care training organization, to educate and train our independent producers in how to help solve clients' long-term care needs. Through our sponsorship, approximately 2,000 of our independent producers attended this program.

Our rigorous focus on risk management in long-term care insurance is a key part of our disciplined growth strategy and we believe it has differentiated us from our competitors. This focus includes strong pricing disciplines, intelligent product positioning, experienced-based underwriting, sound claims adjudication, disciplined asset-liability management and extensive in-force monitoring processes. Our critical product pricing assumptions such as lapse rates, investment yields, mortality and morbidity are based upon 30 years of experience. As part of our approach to product pricing, we stress test all our morbidity and other pricing assumptions through stochastic modeling. Our products are positioned to be particularly attractive to certain segments of the population, based on age and marital status, where we see consistent, favorable claims experience. Our extensive pricing and claims experience and databases enable us to perform in depth analysis so that we can respond to emerging experience and execute product pricing strategies to achieve target returns. We have comprehensive underwriting processes, including an experienced team of underwriters, and advanced analytics and technology, that improve our risk assessment and operating efficiency. We believe we have one of

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the largest and most experienced claims organizations in the industry. Our claims adjudication process on reimbursement policies includes a pre-eligibility assessment by an experienced health professional to establish preliminary claims eligibility, followed by an on-site assessment and care coordination phase to validate eligibility and to design an appropriate plan of care. To mitigate exposure to interest rate risk, including interest rate risk on the investment of in-force premiums, we execute investment and hedging strategies. Finally, our in-force monitoring processes include on-going evaluations of product performance, external validation of risks and various simulation tests including stochastic modeling.

Throughout our history, we have consistently been a leader in product innovation. We were one of the first long-term care insurers to offer home care coverage and the first to offer shared plan coverage for married couples. We developed these innovations based upon our risk analytics and in response to policyholder needs and emerging claims experience. Our most recent innovations have included our policyholder wellness initiatives that are designed to improve the overall health of our policyholders. These initiatives provide valuable services to our policyholders, reduce claims expenses and differentiate us from our competitors.

We distribute our products through diversified sales channels consisting of more than 100,000 appointed independent producers, financial intermediaries and dedicated sales specialists. Approximately 300 associates support these diversified distribution channels.

The following table sets forth, on an actual and pro forma basis, selected financial information regarding our long-term care insurance business, which includes long-term care insurance, Medicare supplement insurance, as well as several run-off blocks of accident and health insurance and corporate-owned life insurance for the periods indicated:

	Historical			Pro forma
	For the years ended December 31,			For the year ended
				December 31,
(Dollar amounts in millions)	2004	2003	2002	2004
Net earned premiums	\$ 1,672	\$ 1,775	\$ 1,543	\$ 1,589
Annualized first-year premiums(1)	162	240	257	162
Revenues, net of reinsurance	2,311	2,408	2,087	2,182

- (1) Annualized first-year premiums reflect the amount of business we generated during each period shown and do not include renewal premiums on policies written during prior periods. We consider annualized first-year premiums to be a measure of our operating performance because they represent a measure of new sales of insurance policies during a specified period, rather than a measure of our revenues or profitability during that period. This operating measure enables us to compare our operating performance across periods without regard to revenues or profitability related to policies sold in prior periods or from investments or other sources.

Products

Our principal product is individual long-term care insurance. Prior to the mid-1990s, we issued primarily indemnity policies, which provide for fixed daily amounts for long-term care benefits. Since the mid-1990s, we have offered primarily reimbursement policies, which provide for

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reimbursement of documented and approved expenses for nursing home, assisted living facilities or home care expenses. As of December 31, 2004, our in-force policies consisted of approximately 84% reimbursement policies and 16% indemnity policies, measured on a premium-weighted basis. Reimbursement policies permit us to review individual claims expenses and, therefore, provide greater control over claims cost management than indemnity policies.

Our products provide customers with a choice of a maximum period of coverage from two years to ten years, as well as lifetime coverage. Our current products also provide customers with different choices for the

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maximum reimbursement limit for their policy, with \$100 to \$150 per day being the most common choices nationwide. Our new policies can be purchased with a benefit increase option that provides for increases in the maximum reimbursement limit at a fixed rate of 5% per year, which helps to mitigate customers' exposure to increasing long-term care costs. Many long-term care insurance policies sold in the industry have a feature referred to as an elimination period that is a minimum period of time that an insured must incur the direct cost of care before becoming eligible for policy benefits. Although many of our new policies have no elimination period for home care coverage, the majority of our new policies do have an elimination period for care provided in assisted living and nursing facilities. All of these product features allow customers to tailor their coverage to meet their specific requirements and allow us to price our products with better predictability regarding future claim costs.

Our current long-term care insurance product is designed to offer comprehensive coverage with flexibility to adjust benefits and coverages to meet individual consumer needs. Features include no elimination period for home-care benefits, international coverage and a choice between monthly maximum expense limits and daily limits. Consumers also are able to design more economical long-term care insurance policies by customizing individual benefit features and reducing reimbursement on home-care benefits.

We sell our long-term care insurance policies on a guaranteed renewable basis, which means that we are required to renew the policies each year as long as the premium is paid. The terms of all our long-term care insurance policies permit us to increase premiums during the premium-paying period if appropriate in light of our experience with a relevant group of policies, although historically it has been our practice not to do so. We may increase premiums on a group of policies in response to those policies' performance, subject to the receipt of regulatory approvals. However, we may not increase premiums due to changes in an individual's health status or age.

In addition to our individual long-term care insurance products, we also offer a group long-term care insurance program for GE employees in the U.S. This group program currently consists of approximately 42,000 long-term care insurance policies and accounted for approximately \$25 million and \$24 million of net earned premiums for the years ending December 31, 2004 and 2003, respectively.

We also offer Medicare supplement insurance providing coverage for Medicare-qualified expenses that are not covered by Medicare because of applicable deductibles or maximum limits. Medicare supplement insurance often appeals to a similar sector of the population as long-term care insurance, and we believe we will be able to use our marketing and distribution strengths for long-term care insurance products to increase sales of Medicare supplement insurance.

The financial results of our long-term care insurance business also include the results of our Medicare supplement insurance product and several small run-off blocks of accident and health insurance products and corporate-owned life insurance. We believe that these blocks of business do not have a material effect on the results of our long-term care insurance business.

Prior to the completion of the IPO, we ceded a block of in-force long-term care insurance business to UFLIC, and we assumed several small in-force blocks of Medicare supplement insurance from UFLIC.

Underwriting and pricing

We employ extensive medical underwriting policies and procedures to assess and quantify risks before we issue our long-term care insurance policies. For individual long-term care products, we use underwriting criteria that are similar to, but separate from, those we use in underwriting life insurance products. Depending upon an applicant's age and health status, we use a variety of underwriting information sources to determine

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morbidity risk, or the probability that an insured will be unable to perform activities of daily living or suffer cognitive impairment, and eligibility for insurance. The process entails a comprehensive application that requests health, prescription drug and lifestyle- and activity-related information. Higher-risk applicants are also required to

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participate in an assessment process by telephone or in person. A critical element of this assessment process is a cognitive exam to identify early cognitive impairments. In addition, an experienced long-term care insurance underwriter conducts a comprehensive review of the application, the results of the assessment process and, in many cases, complete medical records from the applicant's physicians.

To streamline the underwriting process and improve the accuracy and consistency of our underwriting decisions, we implemented the GENIUS® automated underwriting technology in our long-term care insurance business beginning in January 2003. We now use GENIUS® to process all our new long-term care insurance applications.

We believe we have one of the largest and most experienced long-term care insurance claims management operations in the industry. Our claims adjudication process includes, with respect to newer policies, a pre-claim assessment by an experienced health professional who establishes preliminary claims eligibility, followed by an on-site assessment and care coordination phase to validate eligibility and to work with the customer in determining an appropriate plan of care. Continued claims eligibility is verified through an ongoing eligibility assessment for existing claimants. We will continue to make investments in new processes and technologies that will improve the efficiency and effectiveness of our long-term care insurance expense tracking and claims decision-making process.

The overall profitability of our long-term care insurance policies depends to a large extent on the degree to which our claims experience, morbidity and mortality experience, lapse rates and investment yields match our pricing assumptions. We believe we have the largest actuarial database in the industry, derived from 30 years of experience in offering long-term care insurance products. This database has provided substantial claims experience and statistics regarding morbidity risk, which has helped us to develop a sophisticated pricing methodology tailored to segmented risk categories, depending upon marital status, medical history and other factors. We continually monitor trends and developments 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, comprising 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.

Payment protection insurance

Overview

We provide payment protection insurance to customers throughout Europe. Payment protection insurance helps consumers meet their payment obligations on outstanding financial commitments, such as mortgages, personal loans or credit cards, in the event of a misfortune such as illness, involuntary unemployment, temporary incapacity, permanent disability or death. We currently offer payment protection insurance in the U.K., where we have offered the product for more than 30 years, and in 12 other European markets—Denmark, Finland, France, Germany, Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

Finaccord, an industry research firm, estimated in 2002 that gross written premiums for payment protection insurance with an involuntary unemployment, temporary incapacity, permanent disability or death element were approximately \$26 billion in the U.K. and the six other European countries it reviewed. Finaccord also estimated that the average annual growth rates in these seven countries would be approximately 10% for retail lending balances from 2003 to 2005. The U.K. is the largest and most mature market in Europe. Although recent growth rates and margins have varied throughout Continental Europe, they are generally significantly higher than in the U.K.

We distribute our payment protection products primarily through financial institutions, such as major European banks, which offer our insurance products in connection with underlying loans or other financial

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products they sell to their customers. Under these arrangements, the distributors typically take responsibility for branding and marketing the products, allowing us to take advantage of their distribution capabilities, while we take responsibility for pricing, underwriting and claims payment. We continue to implement innovative methods for distributing our payment protection insurance products, including using web-based tools that provide our distributors with a cost-effective means of applying and selling our products in combination with a broad range of underlying financial products. We believe these innovative methods also will make it easier to establish arrangements with new distributors.

As we enter into new arrangements and as existing arrangements become due for renewal, we are focused on maintaining a disciplined approach to growth, with an emphasis on arrangements that achieve our targeted returns on capital and increase our operating earnings.

Products

Our principal product is payment protection insurance, which can support any loan, credit agreement or other financial commitment. Depending upon the type of financial product or commitment, our policies may cover all or a portion of the policyholder's obligation or may cover monthly payments for a fixed period of time. We are able to customize the circumstances under which benefits are paid from among the range of events that can prevent policyholders from meeting their payment obligations. In the event of a policyholder's illness, involuntary unemployment or other temporary inability to work, we cover monthly payment obligations until the policyholder is able to return to work, subject, in some cases, to a maximum period. In the event of a policyholder's death or permanent disability, we typically repay the entire covered obligation.

In addition to payment protection insurance, we offer related consumer protection products, primarily in the U.K., including personal accident insurance and product purchase protection. We continue to evaluate opportunities to take advantage of our European operations and distribution infrastructure to offer consumer protection insurance products throughout Europe.

The following table sets forth selected financial information regarding our payment protection insurance and other related consumer protection insurance products for the periods indicated:

(Dollar amounts in millions)	For for the years ended December 31,		
	2004	2003	2002
Gross written premiums	\$ 902	\$ 1,532	\$ 1,548
Net earned premiums	1,427	1,507	1,242
Total revenues, net of reinsurance	1,549	1,615	1,372
Losses and loss adjustment expenses	263	376	307

We work with our distributors to design and promote insurance products in ways that best complement their product strategies and risk profiles and to ensure that our products comply with all applicable consumer regulations. Through this close cooperation, we believe there are opportunities to increase the benefit of these arrangements by extending our payment protection insurance products across the full range of consumer finance products offered by our distributors. We are also working closely with our distributors to help them increase the percentage of their customers who purchase our protection insurance at the time they enter into a loan or financial commitment and reduce the percentage of customers who elect not to renew our policies upon expiration. Consumers generally pay premiums for our insurance to our distributors, who in turn forward these payments to us, typically net of commissions.

Consistent with our focus on disciplined growth and returns on capital, as we enter into new arrangements and review existing arrangements with distributors, we seek to manage these arrangements and deploy capital where we believe we can achieve the highest returns while strengthening our client relationships. In some cases,

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particularly in the U.K., we had arrangements in place that accounted for significant revenue without a corresponding benefit to return on capital. Accordingly, in the third quarter of 2003, we evaluated our contractual relationships with our payment protection insurance distributors against our targeted return thresholds and decided to terminate or not to renew certain relationships that we refer to as run-off. Although we expect our revenue to continue to decline over the next few years as existing policies from these less-profitable arrangements continue to run off, we believe this will not have a material impact on our operating earnings and will have a favorable effect on our returns as capital is released and redeployed into markets with potential for higher growth and returns. Written premiums in our payment protection insurance business, gross of reinsurance and cancellations, decreased by 31% from \$2,175 million for the year ended December 31, 2003 to \$1,501 million for the year ended December 31, 2004. Excluding the run-off business, written premiums, gross of reinsurance and cancellations, increased by 21% from \$1,191 million for the year ended December 31, 2003 to \$1,441 million for the year ended December 31, 2004.

We are continuing to diversify and expand our base of distributors. We are also exploring additional growth opportunities in Europe, which we believe will be increasingly receptive to payment protection insurance as consumer lending further develops in those markets. In addition, we believe the accession of additional countries to the European Union will facilitate our entry into those markets.

For the years ended December 31, 2004, 2003 and 2002, GE's consumer finance division and other related GE entities accounted for 42%, 19% and 14% of our payment protection insurance gross written premiums, respectively. This increase in the percentage of business relating to GE entities was primarily attributable to the decline in total gross written premiums in our payment insurance business that was due to the significant decrease in premiums relating to our run-off block. In early 2004, we entered into a five-year agreement, subject to certain early termination provisions, that extends our relationship with GE's consumer finance division and provides us with the right to be the exclusive provider of payment protection insurance in Europe for GE's consumer finance operations in jurisdictions where we offer these products.

Underwriting and pricing

We have more than 30 years of experience in underwriting payment protection insurance. Consistent with market practices, our payment protection insurance currently is underwritten and priced on a program basis, by type of product and by distributor, rather than on the basis of the characteristics of the individual policyholder. In setting prices, we take into account the underlying obligation, the particular product features and the average customer profile of the distributor (including data such as customer age, gender and occupation). We also consider morbidity and mortality rates, lapse rates and investment yields in pricing our products. We believe our experience in underwriting allows us to provide competitive pricing to distributors and generate targeted returns and profits for our business.

Group life and health insurance

Overview

We offer a full range of employment-based benefit products and services targeted primarily at employers with fewer than 1,000 employees, as well as select groups within larger companies that require highly customized benefit plans. We refer to our group life and health insurance business as the Employee Benefits Group. This group's products include group non-medical insurance products, such as dental, vision, life and disability insurance; group medical insurance products, such as stop loss insurance; and individual voluntary products. We purchase excess-of-loss reinsurance coverage to limit our exposure to losses from our group non-medical and medical insurance lines.

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We use an independent network of approximately 4,000 licensed group life and health insurance brokers and agents, supported by our nationwide sales force of approximately 100 employees, to distribute our group life and health insurance products. Individual voluntary products are sold through employers and other worksite-

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based groups using a network of independent insurance producers. As of December 31, 2004, our Employee Benefits Group provided employment-based benefit products and services to approximately 31,000 organizations, including approximately 2.7 million plan participants.

Many of the employers in our target market do not have large human resource departments with individuals devoted to benefit design, administration and budgeting. As a result, we work closely with independent group benefit brokers and the end customer or employer to design benefit plans to meet the employer's particular requirements. Our customers are small and mid-size employers that require knowledgeable independent group benefit brokers and insurance company representatives to understand their individual financial needs and employee profiles and to structure benefit plans that are appropriate for their particular size, geographical markets and resources. We believe our extensive experience and expertise in group life and health insurance products provide us with opportunities to foster close broker relationships and to assist employers in designing benefit plans, as well as selling traditional insurance products.

The following table sets forth selected financial information regarding our group life and health insurance products for the periods indicated:

(Dollar amounts in millions)	For the years ended		
	December 31,		
	2004	2003	2002
Net earned premiums	\$ 623	\$ 608	\$ 618
Annualized first-year premiums(1)	171	144	168
Revenues, net of reinsurance	686	677	714

- (1) Annualized first-year premiums reflect the amount of business we generated during each period shown and do not include renewal premiums on policies written during prior periods. We consider annualized first-year premiums to be a measure of our operating performance because they represent a measure of new sales of insurance policies during a specified period, rather than a measure of our revenues or profitability during that period. This operating measure enables us to compare our operating performance across periods without regard to revenues or profitability related to policies sold in prior periods or from investments or other sources.

Products

We offer a full range of employee benefits products for the group, group voluntary and individual voluntary markets. We sell group benefits exclusively to employers, which pay all or most of the applicable premiums. We sell group voluntary and individual voluntary benefits through employers to employees, who generally pay all or most of the premiums through payroll deductions. Coverage in both group and group voluntary benefits generally ceases upon the termination of employment, whereas coverage in individual voluntary benefits continues after the termination of employment. Voluntary benefit products enable an employer to expand its available employee benefits without adding to the company's costs. As a result, these programs allow employees to select benefit packages to meet their individual and family needs and budgets, generally at lower premiums than they would pay for comparable benefit packages assembled independently. Employers help to administer group and group voluntary benefits, and we administer individual voluntary benefits with little involvement from employers.

Group non-medical insurance

Our group non-medical insurance consists of dental and vision, life and disability insurance products.

Dental and vision insurance. Our group dental coverage provides benefits to insured employees and their eligible dependents for specified dental services. We also offer dental managed-care plans, which provide differentiated benefit levels depending upon whether the dental provider is a member of a nationwide network. Vision coverage generally is offered as a supplement to dental coverage.

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Life insurance. Our group term life insurance product provides benefits in the event of an insured employee's death. The death benefit can be based upon an individual's earnings or occupation, or can be fixed at a set dollar amount. Our products also include optional accidental death and dismemberment coverage as a supplement to our term life insurance policies. This coverage provides benefits for an insured employee's loss of life, limb or sight as a result of accidental death or injury.

Disability insurance. Our group long-term disability coverage is designed to cover the risk of employee loss of income during prolonged periods of disability. Our group short-term disability coverage provides partial replacement of an insured employee's weekly earnings in the event of disability resulting from an injury or illness. Benefits can be a set dollar amount or based upon a percentage of earnings.

Group medical insurance

Our group medical insurance consists of stop loss insurance and fully insured medical.

Stop loss insurance. Our stop loss insurance coverage is written for employers that self-insure their employee medical benefits and covers the risk of higher-than-expected claims experience. Our coverage provides reimbursement for claims in excess of a predetermined level.

We also offer an integrated self-funded medical benefits program that provides employers with stop-loss reinsurance coverage coupled with administrative services.

Fully insured medical. Our group medical coverage provides benefits for insured employees and their dependents for hospital, surgical and ancillary medical expenses. We offer several types of plans with a wide range of plan features, such as indemnity plans, which contain deductibles and co-insurance payments, and preferred provider organization plans, or PPO plans, which reduce deductibles and co-insurance payments for medical services provided by members of a preferred provider network of healthcare providers.

Individual voluntary products

We offer individual voluntary life and health insurance and annuity contracts through worksite marketing programs in which our representatives visit employer premises and make presentations to employees. Our individual health coverage consists primarily of short-term disability benefits with benefit periods generally ranging from nine months to two years. Although the policies are sold in connection with a benefit package offered to company employees, each policyholder receives an individual policy, and coverage can continue after termination of employment if the policyholder continues to make premium payments.

Underwriting and pricing

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Group insurance pricing is different from individual product pricing in that it reflects the group's claims experience, when appropriate. The risk characteristics of each group are reviewed at the time the policy is issued and each year thereafter, resulting in ongoing adjustments to the group's pricing. The key rating and underwriting criteria are the group's demographic composition, including the age, gender and family composition of the group's members, the industry of the group, geographic location, regional economic trends, plan design and the group's prior claims experience.

We have a data warehouse that is integrated with all our claims processing systems. The data warehouse contains at least seven years of experience for each product that helps us predict future experience by modeling the impact of changes in current rates against historic claims. Our automated underwriting quotation and renewal systems efficiently process low-risk cases and identify high-risk cases for further underwriter review. We also have developed proprietary automated underwriting techniques that enhance the speed and accuracy of, and reduce variations in, our underwriting decision-making.

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Competition

We face significant competition in all our Protection segment operations. Our competitors include other large and highly rated insurance carriers. Some of these competitors have greater resources than we do, and many of them offer similar products and use similar distribution channels. We also face competition in our life, long-term care and group insurance product lines for independent sales intermediaries and our dedicated sales specialists. This competition is based primarily upon product pricing and features, compensation and benefits structure and support services offered. We continuously provide technology upgrades and enhanced training, and we seek to improve service for our independent sales intermediaries and dedicated sales specialists.

In our payment protection insurance business, we are one of the few payment protection insurance providers with operations across Europe. Our competitors are divided into two broad groups: the large pan-European payment protection providers and local competitors, consisting principally of smaller national insurance companies. We also compete with captive insurers, particularly in the U.K., as our distributors increasingly consider the benefits of providing payment protection insurance directly to their customers.

Retirement Income and Investments

Overview

Through our Retirement Income and Investments segment, we offer fixed and variable deferred annuities and income annuities. We offer these products to a broad range of consumers who want to accumulate tax-deferred assets for retirement, desire a reliable source of income during their retirement, and/or seek to protect against outliving their assets during retirement. According to VARDS, we were the largest provider of variable income annuities, and according to LIMRA International, we were the second-largest provider of fixed income annuities in the U.S. for the year ended December 31, 2004, in each case based upon total premiums and deposits.

According to LIMRA International, sales of individual annuities were \$220 billion and \$219 billion in 2002 and 2003, the last years for which industry data regarding aggregate sales of individual annuities is available. We believe aggregate sales of individual annuities in 2003 and 2004 remained nearly constant from 2002 levels for two reasons. First, the low interest rates that persisted throughout 2003 and 2004 resulted in low crediting rates and limited market demand for certain annuities. Second, continued volatility in the equity markets caused potential purchasers to refrain from purchasing products, such as variable annuities and variable life insurance, that have returns linked to the performance of the equity markets. We believe that higher interest rates and greater stability in equity markets will result in increased demand for annuities and other investment products that help consumers accumulate assets and provide reliable retirement income.

We offer fixed and variable deferred annuities, in which assets accumulate until the contract is surrendered, the contractholder dies or the contractholder begins receiving benefits under an annuity payout option, as well as fixed and variable income annuities, in which payments begin within one year of issue and continue for a fixed period or for life. We believe our wide range of fixed annuity products has provided a stable source of asset growth during volatile equity and bond markets in recent years, and our variable annuity offerings continue to appeal to contractholders who wish to participate in returns linked to equity and bond markets. We also offer variable life insurance through our Retirement Income and Investments segment because this product provides investment features that are similar to our variable annuity products.

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In addition to our annuity and variable life insurance products, we offer a number of specialty products, including guaranteed investment contracts, or GICs, funding agreements and structured settlements. We sell GICs to ERISA-qualified plans, such as pension and 401(k) plans, and we sell funding agreements to money market funds that are not ERISA qualified and to other institutional investors. Our structured settlements provide an alternative to a lump sum settlement, generally in a personal injury lawsuit, and typically are purchased by property and casualty insurance companies for the benefit of an injured claimant with benefits scheduled to be paid throughout a fixed period or for the life of the claimant. In addition, we offer private asset management services for affluent individual investors.

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We develop our annuity products through a rigorous pricing and underwriting process designed to achieve targeted returns based upon each product's risk profile and our expected rate of investment returns. We compete for sales of annuities through competitive pricing policies and innovative product design. For example, we recently introduced the Income Distribution Series of guaranteed income annuity products and riders that provide a guaranteed minimum income stream with an opportunity for the contractholder to participate in market appreciation but reduce some of the risks to insurers that generally accompany traditional products with guaranteed minimum income benefits.

We offer our annuities and other investment products primarily through financial institutions and specialized brokers, as well as independent accountants and independent advisers associated with our captive broker dealer. We provide extensive training and support to our distributors through a wholesaling sales force that specializes in retirement income needs.

The following table sets forth selected information regarding the products we offer through our Retirement Income and Investments segment as of the dates and for the periods indicated:

(Dollar amounts in millions)	As of or for the years ended		
	December 31,		
	2004	2003	2002
Spread-Based Retail Products			
Fixed annuities			
Account value net of reinsurance, beginning of period	\$ 14,166	\$ 13,753	\$ 11,965
Deposits	1,741	1,069	2,663
Interest credited	600	603	606
Surrenders and benefits	(1,381)	(1,248)	(1,471)
Product charges	(13)	(11)	(10)
Account value net of reinsurance, end of period	\$ 15,113	\$ 14,166	\$ 13,753
Income annuities			
Account value net of reinsurance, beginning of period	\$ 5,008	\$ 4,673	\$ 4,002
Net earned premiums and deposits	760	717	979
Interest credited	303	292	277
Surrenders and benefits	(689)	(650)	(562)
Product charges	(28)	(24)	(23)
Account value net of reinsurance, end of period	\$ 5,354	\$ 5,008	\$ 4,673
Structured settlements(1)			
Account value, beginning of period	\$ 12,017	\$ 11,544	\$ 11,098
Net earned premiums and deposits	544	581	516
Interest credited	844	827	797
Surrenders and benefits	(1,060)	(912)	(847)
Product charges	(22)	(23)	(20)
Account value, end of period	\$ 12,323	\$ 12,017	\$ 11,544
Total annualized first-year premiums from spread-based retail products(2)	\$ 1,094	\$ 1,049	\$ 991

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Total deposits on spread-based retail products(3)	1,951	1,318	3,167
Spread-Based Institutional Products			
GICs and funding agreements			
Account value, beginning of period	\$ 9,527	\$ 10,274	\$ 8,693
Deposits(4)	3,056	3,702	3,862
Interest credited	281	296	230
Surrenders and benefits(4)	(3,323)	(4,745)	(2,511)
	<u> </u>	<u> </u>	<u> </u>
Account value, end of period	\$ 9,541	\$ 9,527	\$ 10,274
	<u> </u>	<u> </u>	<u> </u>
Total deposits on spread-based institutional products(3)(4)	\$ 3,056	\$ 3,702	\$ 3,862

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(Dollar amounts in millions)	As of or for the years ended		
	December 31,		
	2004	2003	2002
Fee-Based Products			
Variable annuities(1)			
Account value, beginning of period	\$ 10,904	\$ 9,048	\$ 10,168
Deposits	1,106	2,102	1,667
Interest credited and investment performance	1,116	1,356	(1,091)
Surrenders and benefits	(1,451)	(1,483)	(1,571)
Product charges	(120)	(119)	(125)
Account value, end of period	\$ 11,555	\$ 10,904	\$ 9,048
Variable life insurance			
Deposits	\$ 39	\$ 45	\$ 47
Future policy benefits/policy account balances, net of reinsurance	16	12	8
Separate account liability	297	269	220
Life insurance in force	3,472	3,636	3,628
Asset management			
Revenues	47	32	40
Deposits(5)	691	760	650
Assets under management	2,753	2,395	1,762
Total deposits on fee-based products(3)	1,836	2,907	2,364

- (1) Effective as of January 1, 2004, we ceded to UFLIC all of our structured settlement contracts and substantially all of our variable annuity contracts that were in-force as of December 31, 2003.
- (2) Represents annualized first-year premiums earned on spread based income annuities and structured settlements with life contingencies. Annualized first year premiums reflect the amount of business we generated during each period shown and do not include renewal premiums on policies written during prior periods. We consider annualized first year premiums to be a measure of our operating performance because they represent a measure of new sales of insurance policies during a specified period, rather than a measure of our revenues or profitability during that period. This operating measure enables us to compare our operating performance across periods without regard to revenues or profitability related to policies sold in prior periods or from investments or other sources.
- (3) Represents deposits received on spread based non-life-contingent products and on fee based products. We consider deposits, like annualized first year premiums, to be a measure of our operating performance because they represent a measure of additional investments by our customers during a specified period, rather than a measure of our revenues or profitability during that period.
- (4) Surrenders and benefits include contracts that have matured but are redeposited with our company and reflected as deposits. In the years ended December 31, 2004, 2003 and 2002, surrenders and benefits of spread based institutional products included \$927 million, \$1,675 million and \$800 million, respectively, that was redeposited and reflected under Deposits.
- (5) Our clients own the assets deposited in our asset management products, and we receive a management fee based on the amount of assets under management.

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The following table sets forth, on an actual and pro forma basis, selected financial information regarding our Retirement Income and Investments segment as of the dates and for the periods indicated:

(Dollar amounts in millions)	Historical			Pro forma
	As of or for the years ended December 31,			For the year ended
	2004	2003	2002	December 31, 2004
Net earned premiums				
Spread-based retail products	\$ 1,094	\$ 1,049	\$ 991	\$ 1,094
Spread-based institutional products				
Fee-based products				
Total net earned premiums	\$ 1,094	\$ 1,049	\$ 991	\$ 1,094
Revenues, net of reinsurance				
Spread-based retail products	\$ 2,712	\$ 3,122	\$ 3,028	\$ 2,347
Spread-based institutional products	332	346	419	332
Fee-based products	317	335	309	212
Total revenues, net of reinsurance	\$ 3,361	\$ 3,803	\$ 3,756	\$ 2,891
Segment net earnings				
Spread-based retail products(1)	\$ 79	\$ 109	\$ 119	\$ 71
Spread-based institutional products	30	29	47	30
Fee-based products	44	13	20	47
Total segment net earnings(1)	\$ 153	\$ 151	\$ 186	\$ 148
Assets				
Spread-based retail products	\$ 34,972	\$ 34,255	\$ 33,493	
Spread-based institutional products	9,359	9,346	10,175	
Fee-based products	12,279	12,013	9,956	
Total assets	\$ 56,610	\$ 55,614	\$ 53,624	

(1) Total segment net earnings for the year ended December 31, 2004 exclude the cumulative effect of a change in accounting principles, net of taxes, of \$5 million.

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Products

Spread-Based Retail Products

Fixed annuities

We offer fixed single premium deferred annuities, or SPDAs, which provide for a single premium payment at time of issue, an accumulation period and an annuity payout period at some future date. During the accumulation period, we credit the account value of the annuity with interest earned at an interest rate, called the crediting rate. The crediting rate is guaranteed generally for one year but may be guaranteed for up to seven years, at the contractholders' option, and thereafter is subject to change at our discretion, based upon competitive factors, prevailing market rates and product profitability. Each contract also has a minimum guaranteed crediting rate. Our fixed annuity contracts are funded by our general account, 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 5 to 10 years. After the period specified in the annuity contract, the contractholder may elect to take the proceeds of the annuity as a single payment or over time.

Our fixed annuity contracts permit the contractholder at any time during the accumulation period to withdraw all or part of the single premium paid, plus the amount credited to his account, subject to contract provisions such as surrender charges that vary depending upon the terms of the product. The contracts impose surrender charges that typically vary from 5.0% to 8.0% of the account value, starting in the year of deposit and decreasing to zero over a 5- to 9-year period. The contractholder also may withdraw annually up to 10% of the account value without any contractual penalty. Approximately \$11.2 billion, or 75% of the total account value of our fixed annuities as of December 31, 2004, were subject to surrender charges.

At least once each month, we set an interest crediting rate for newly issued fixed SPDAs and additional deposits. We maintain the initial crediting rate for a minimum period of one year or the guarantee period, whichever is longer. Thereafter, we may adjust the crediting rate no more frequently than once per year for any given deposit. In 2004, we introduced a product that has flexible pricing features. Most of our recently issued annuity contracts have minimum guaranteed crediting rates between 1.5% and 3.0%.

Our earnings from fixed annuities are based upon the spread between the crediting rate on our fixed annuity contracts and the returns we earn on our investment of premiums in our general account.

Income annuities

We offer income annuities, also known in the industry as fixed single premium immediate annuities, or SPIAs, which provide for a single premium at the time of issue and guarantee a series of payments beginning within one year of the issue date and continuing over a period of years. Income annuities also include variable income annuities, which provide for an accumulation period, followed by a guaranteed minimum income stream for the life of the annuitant, with the possibility of additional income depending upon underlying investment account performance.

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Our income annuities differ from deferred annuities in that they provide for contractually guaranteed payments that begin within one year of issue. Income annuities do not provide for surrender or policy loans by the contractholder, and therefore they provide us with the opportunity to match closely the underlying investment of the deposit received to the cash benefits to be paid under a policy and provide for an anticipated margin for expenses and profit, subject to credit, reinvestment and, in some cases, mortality risk.

The two most common types of income annuities are the life-contingent annuity, which makes payments for the life of a contractholder, and the joint and survivor annuity, which continues to make payments to a second contractholder, such as a spouse, after the death of the contractholder. We also offer period certain annuities, which generally make payments for a minimum period from 5 to 20 years even if the contractholder dies within the term certain period. Income annuities typically are sold to contractholders approaching retirement. We anticipate higher sales of income annuities with the demographic shift toward more people reaching retirement age and focusing on their need for dependable retirement income.

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Structured settlements

Structured settlement contracts provide an alternative to a lump sum settlement, generally in a personal injury lawsuit or worker's 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. Structured settlement contracts also may provide for irregularly scheduled payments to coincide with anticipated medical or other claimant needs. These settlements offer tax-advantaged, long-range financial security to the injured party and facilitate claim settlement for the property and casualty insurance carrier. Structured settlement contracts are long-term in nature, guarantee a fixed benefit stream and generally do not permit surrender or borrowing against the amounts outstanding under the contract.

Prior to the completion of the IPO, we ceded all of our in-force structured settlements business to UFLIC. We continue to write structured settlements when we believe we will be able to achieve our targeted returns, capitalizing on our experience and relationships in this product.

Spread-Based Institutional Products

We offer guaranteed investment contracts, or GICs, and funding agreements, which are deposit-type products that pay a guaranteed return to the contractholder on specified dates. GICs are purchased by ERISA qualified plans, including pension and 401(k) plans. Funding agreements are purchased by institutional accredited investors for various kinds of funds and accounts that are not ERISA qualified. Purchasers of funding agreements include money market funds, bank common trust funds and other corporate and trust accounts and private investors in the U.S. and other countries.

Substantially all 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 typically credit interest at a fixed interest rate and have a fixed maturity generally ranging from two to six years.

Our funding agreements generally credit interest on deposits at a floating rate tied to an external market index. To hedge our exposure to fluctuations in interest rates, we invest the proceeds backing floating-rate funding agreements in floating-rate assets. Some of our funding agreements are purchased by money market funds, bank common trust funds and other short-term investors. These funding agreements typically are renewed annually, and generally contain put provisions, through which the contractholder has an option to terminate the funding agreement for any reason after giving notice within the contract's specified notice period, which is generally 90 days. As of December 31, 2004, we had an aggregate of \$2.8 billion of floating-rate funding agreements outstanding, compared to \$2.9 billion as of December 31, 2003. Of the \$2.8 billion aggregate amount outstanding as of December 31, 2004, \$1.6 billion had put option features, including \$1.5 billion with put option features of 90 days and the remaining \$0.1 billion with put option features of 180 days. General Electric Capital Corporation, or GE Capital, has guaranteed certain obligations under floating-rate funding agreements with a final maturity on or before June 30, 2005. This guarantee covers our obligations to contractholders and requires us to reimburse GE Capital for any payments made to contractholders under the guarantee. As of December 31, 2004, GE Capital's guarantee covered \$1.4 billion of outstanding floating-rate funding agreements.

We also issue funding agreements to trust accounts to back medium-term notes purchased by investors. These contracts typically are issued for terms of one to seven years. As of December 31, 2004, we had an aggregate of \$3.4 billion of these funding agreements, compared to \$3.0 billion as of December 31, 2003. Of the \$3.4 billion of these funding agreements outstanding as of December 31, 2004, \$0.4 billion permitted early termination provisions upon twelve months' notice. The remainder of these funding agreements did not permit early termination.

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Fee-Based Products

Variable annuities

We offer variable annuities that allow the contractholder to make payments into a guaranteed-rate account and separate accounts that invest in underlying mutual funds, as determined by the contractholder. Like a deferred fixed annuity, a deferred variable annuity has an accumulation period and a payout period. The main difference between our fixed annuity products and our variable annuity products is that the variable annuities allow the contractholder to allocate all or a portion of his account value to separate accounts that invest in investment accounts that are distinct from our general account. Assets allocated to each separate account track the performance of selected mutual funds, including offerings from GE, Fidelity and Oppenheimer. There is no guaranteed minimum rate of return in these subaccounts, and the contractholder bears the entire risk associated with the performance of these subaccounts. Some of our variable annuities also permit the contractholder to allocate all or a portion of his account value to our general account, in which case we credit interest at specified rates, subject to certain guaranteed minimums, which are comparable to the minimum rates in effect for our fixed annuities.

Similar to our fixed annuities, our variable annuity contracts permit the contractholder to withdraw all or part of the premiums paid, plus the amount credited to his account, subject to contract terms such as surrender charges. The cash surrender value of a variable annuity contract depends upon the value of the assets that have been allocated to the contract, how long those assets have been in the contract and the investment performance of the mutual funds to which the contractholder has allocated assets.

Variable annuities provide us with fee-based revenue in the form of expense charges and, in some cases, mortality charges. These fees equal a percentage of the contractholder's assets in the separate account and typically range from 1.25% to 1.70% per annum. We also receive fees charged on assets allocated to our separate account to cover administrative costs and, in some cases, a distribution fee from the underlying mutual funds in which assets are invested.

We also offer variable annuities with fixed account options and with bonus features. Variable annuities with fixed account options enable the contractholder to allocate a portion of his account value to the fixed account, which pays a fixed interest crediting rate. New deposits to the fixed account within the variable annuity are limited to 25% of the total deposit. The portion of the account value allocated to the fixed account option represents general account liability for us and functions similarly to a traditional fixed annuity, whereas for the portion allocated to the separate account, the contractholder bears the investment risk. Our variable annuities with bonus features entitle the contractholder to an additional increase to his account value upon making a deposit. However, variable annuities with bonus features are subject to different surrender charge schedules and expense charges than variable annuities without the bonus feature.

Our variable annuity contracts provide for a guaranteed minimum death benefit, or GMDB, which provides a minimum account value to be paid upon the annuitant's death. Our contractholders also have the option to purchase, at an additional charge, a GMDB rider that provides for an enhanced death benefit. Assuming every annuitant died on December 31, 2004, as of that date, contracts with GMDB features not covered by reinsurance had an account value of \$1.1 billion and a related death benefit exposure of \$1 million net amount at risk. In May 2003, we raised prices of, and reduced certain benefits under, our newly issued GMDBs. We continue to evaluate our pricing and hedging of GMDB features and intend to change prices if appropriate. In addition, in July 2004, we introduced a variable annuity product with a guaranteed minimum withdrawal benefit, or GMWB. This product provides a guaranteed annual withdrawal of a fixed portion of the initial deposit over a fixed period of time but requires a balanced asset allocation of the customer's separate account deposit.

We continually review potential new variable annuity products and pursue only those where we believe we can achieve targeted returns in light of the risks involved. Unlike several of our competitors, we have not offered variable annuity products with traditional guaranteed minimum income benefits, or GMIBs, or with guaranteed

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minimum accumulation benefits, or GMABs. Traditional GMIB products guarantee a specified minimum appreciation rate for a defined period of time, after which annuity payments commence. GMAB products guarantee a customer's account value will be no less than the original investment at the end of a specified accumulation period, plus a specified interest rate.

Although we do not offer traditional GMIBs or GMABs, we have been able to capitalize on the demand for products with guarantees with our GE Retirement Answer[®], or GERA. GERA is a variable deferred annuity that has a minimum 10-year scheduled deposit period for customers who desire guaranteed minimum income streams at the end of an accumulation period. The income stream may exceed the guaranteed minimum based upon the performance of the mutual fund underlying the separate accounts. As of December 31, 2004, we had \$1.23 billion of lump-sum deposits, collected scheduled periodic deposits, and future scheduled periodic deposits for this product since its inception in April 2002. Based on key product design features, some of which have patents pending, we believe GERA allows us to provide our customers a guaranteed income annuity product that mitigates a number of the risks that accompany traditional guaranteed minimum income benefits offered by many of our competitors.

GERA is a component of our Income Distribution Series of variable annuity products and riders. The Income Distribution Series also includes the GE Guaranteed Income Advantage, or GIA, and the GE Principal Protection Advantage, or PPA. The GIA is a rider to several of our variable annuity products that provides retirement benefits similar to the GERA but requires contractholders to allocate assets among a group of available investment options. Whereas the GERA and the GIA require a minimum ten-year accumulation period, the PPA is designed for purchasers nearing retirement and requires only a three-year accumulation period before annuitization.

Prior to the completion of the IPO, we ceded our in-force variable annuities business, excluding the GERA product and a small block of contracts in run-off, to UFLIC.

Variable life insurance

We offer variable life insurance products that provide insurance coverage through a policy that gives the policyholder flexibility in investment choices and, in some products, in premium payments and coverage amounts. Our variable life products allow the policyholder to allocate all or a portion of his premiums to separate accounts that invest in investment accounts that are distinct from our general account. Assets allocated to each separate account track the performance of selected mutual funds, including funds from GE, Fidelity and Oppenheimer. There is no guaranteed minimum rate of return in these subaccounts, and the policyholder bears the entire investment risk associated with the performance of the subaccounts. Some of our variable life insurance products also permit the policyholder to allocate all or a portion of his account value to our general account, in which case we credit interest at specified rates, subject to certain guaranteed minimums, which are comparable to the minimum rates in effect for our fixed annuities.

Similar to our variable annuity products, we collect specified mortality and expense charges, fees charged on assets allocated to the separate account to cover administrative services and costs, and a portion of the management fees from the various underlying mutual funds in which the assets are invested. We collect cost of insurance charges on our variable life insurance products to compensate us for the mortality risk of the guaranteed death benefit, particularly in the early years of the policy when the death benefit is significantly higher than the value of the policyholder's account.

Asset management

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We offer asset management services to affluent individual investors. Most of our clients for these 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. Our asset management clients are referred to us

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through financial advisers. We work with these financial advisers to develop portfolios consisting of individual securities, mutual funds and variable annuities designed to meet each client's particular investment objectives. Our products consist of separately managed accounts, managed mutual funds accounts, and managed variable annuity services. For each of these products, we receive a management fee based upon the amount of assets under management.

Separately managed accounts are individually managed client portfolios that we structure based on the clients' needs and investment objectives, with securities recommended by multiple institutional investment advisors according to defined investment strategies. Our clients directly own the stocks in their individual portfolios, and we continuously monitor and evaluate each investment advisor and the investment performance in each portfolio. We also offer advisory services to help clients invest in a variety of mutual funds and other securities. By working in cooperation with our clients' financial advisers, we seek to achieve each client's investment objectives by selecting the appropriate mutual funds.

Our asset management services generally require minimum investments of \$50,000. As of December 31, 2004, we managed more than \$2.6 billion for approximately 17,000 accounts worldwide.

Our broker dealers have approximately 2,000 affiliated personal financial advisers, including approximately 1,700 accountants, who sell our annuity and insurance products, as well as third party mutual funds and other investment products. In connection with these sales, we receive commission and fee income from purchasers, and we pay a portion of the commissions and fees to personal financial advisers.

Prior to the completion of the IPO, we offered a broad range of institutional asset management services to third parties. GEAM provided the portfolio management services for this business, and we provided marketing, sales and support services. We did not acquire the institutional asset management services business from GEFAHI, but we will continue to provide services to GEAM and GEFAHI related to this asset management business, including client introduction services, asset retention services and compliance support. GEFAHI has agreed to pay us a fee of up to \$10 million per year for four years following the completion of the IPO to provide these services. The fee will be determined based upon the level of third party assets under management managed by GEAM over the four-year term.

As of January 1, 2004, we entered into three agreements with affiliates of GE to manage a pool of municipal guaranteed investment contracts issued by those affiliates. Pursuant to these agreements, we have agreed to originate GIC liabilities and advise the GE affiliates regarding the investment, administration and management of their assets that support those liabilities. Under two of those agreements, we receive an administration fee of 0.165% per annum of the maximum program size for those GE affiliates, which is \$15 billion. The agreements also provide for termination fees in the event of early termination at the option of either affiliate. Under a third agreement with another affiliate, we receive a management fee of 0.10% per annum of the book value of the investment contracts or similar securities issued by this affiliate after January 1, 2003, which was \$1.6 billion as of December 31, 2004. The fee we receive on the contracts issued by that affiliate before January 1, 2003 is based upon a pricing arrangement that varies depending upon the maturities of those contracts and that affiliate's cost of capital. The book value of the contracts issued before January 1, 2003 was \$1.5 billion as of December 31, 2004 and is expected to generate a weighted average fee of approximately 0.35% in 2005. We also will receive reimbursement of our operating expenses under each of the agreements. The initial term of each of the three agreements will expire December 31, 2006, and unless terminated at the option of either party, each agreement will automatically renew on January 1 of each year for successive terms of one year.

Underwriting and pricing

We generally do not underwrite individual lives in our annuity products, other than structured settlements and some income annuities. Instead, we price our products based upon our expected investment returns and our expectations for mortality, longevity and persistency for the group of

our contractholders as a whole, taking into

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account mortality improvements in the general population and our historical experience. We price deferred annuities by analyzing longevity and persistency risk, volatility of expected earnings on our assets under management, and the expected time to retirement. We price our GICs using customized pricing models that estimate both expected cash flows and likely variance from those expectations caused by reallocations of assets by plan participants. We price income annuities and structured settlements using our mortality experience and assumptions regarding continued improvement in annuitant longevity, as well as assumptions regarding investment yields at the time of issue and thereafter.

Competition

As in our Protection segment, we face significant competition in all our Retirement Income and Investments businesses. Many other companies actively compete for sales in our markets, including other major insurers, banks, other financial institutions, mutual fund and money asset management firms and specialty providers. In many of our product lines, we face competition from competitors that have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher claims paying ratings than we do. Many competitors offer similar products and use similar distribution channels. The substantial expansion of banks and insurance companies' distribution capacities and expansion of product features in recent years has intensified pressure on margins and production levels and has increased the level of competition in many of our business lines.

We believe competition in our Retirement Income and Investments businesses is based on several factors, including product features, customer service, brand reputation, penetration of key distribution channels, breadth of product offering, product innovations and price.

Mortgage Insurance

Overview

Through our Mortgage Insurance segment, we offer mortgage insurance in the U.S., Australia, Canada, Europe and New Zealand. We also are exploring opportunities in Latin America and Asia.

Private mortgage insurance expands homeownership opportunities by enabling 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 products increase the funds available for residential mortgages by protecting mortgage lenders and investors against loss in the event of a borrower's default. These products generally also aid 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, in some instances, eliminates the loss to the insured institution. Private mortgage insurance also facilitates 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 now operate in all 50 states in the U.S. and the District of Columbia. According to *Inside Mortgage Finance*, we were the fifth-largest provider in 2004 of mortgage insurance in the U.S., based on new insurance written. We expanded our operations internationally throughout the 1990s and today we believe we are the largest provider of mortgage insurance outside the U.S. In 2004, we believe we were the leading provider in Australia based upon flow new insurance written, and one of two major insurers in Canada. We also are one of the leading private mortgage insurance providers in the U.K., based upon flow new insurance written, and have a growing presence in the developing private mortgage insurance market in Continental Europe. In

In addition to private mortgage insurance, we provide lenders with various underwriting and other products and services related to home mortgage lending.

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The following table sets forth selected financial information regarding our U.S. and international mortgage insurance business, as of and for the periods indicated:

(Dollar amounts in millions)	As of or for the years		
	ended December 31,		
	2004	2003	2002
Assets			
U.S. mortgage insurance	\$ 3,239	\$ 3,806	\$ 4,650
International mortgage insurance	3,189	2,304	1,416
Total assets	\$ 6,428	\$ 6,110	\$ 6,066
Primary insurance in force			
U.S. mortgage insurance	\$ 108,900	\$ 122,200	\$ 120,600
International mortgage insurance	192,600	136,300	79,800
Total primary insurance in force	\$ 301,500	\$ 258,500	\$ 200,400
Risk in force			
U.S. mortgage insurance	\$ 23,700	\$ 26,900	\$ 29,600
International mortgage insurance(1)	62,000	43,400	25,700
Total risk in force	\$ 85,700	\$ 70,300	\$ 55,300
New insurance written			
U.S. mortgage insurance	\$ 28,100	\$ 67,400	\$ 46,900
International mortgage insurance	51,800	39,200	28,200
Total new insurance written	\$ 79,900	\$ 106,600	\$ 75,100
Net premiums written			
U.S. mortgage insurance	\$ 453	\$ 486	\$ 529
International mortgage insurance	620	464	311
Total net premiums written	\$ 1,073	\$ 950	\$ 840
Net premiums earned			
U.S. mortgage insurance	\$ 460	\$ 501	\$ 550
International mortgage insurance(2)	340	215	127
Total net premiums earned	\$ 800	\$ 716	\$ 677
Total revenues, net of reinsurance			
U.S. mortgage insurance	\$ 609	\$ 665	\$ 750
International mortgage insurance	481	317	196
Total revenues, net of reinsurance	\$ 1,090	\$ 982	\$ 946

Benefits and expenses			
U.S. mortgage insurance	\$ 321	\$ 358	\$ 254
International mortgage insurance	157	93	64
Total benefits and expenses	\$ 478	\$ 451	\$ 318
Segment net earnings			
U.S. mortgage insurance	\$ 224	\$ 225	\$ 366
International mortgage insurance	202	144	85
Total segment net earnings	\$ 426	\$ 369	\$ 451

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	As of or for the years		
	ended December 31,		
	2004	2003	2002
Loss ratio(3)			
U.S. mortgage insurance	28%	20%	6%
International mortgage insurance	11%	7%	9%
Total loss ratio	21%	16%	7%
Expense ratio(4)			
U.S. mortgage insurance	43%	53%	41%
International mortgage insurance	19%	17%	17%
Total expense ratio	29%	35%	32%

- (1) Our businesses in Australia, New Zealand and Canada currently provide 100% coverage on the majority of the loans we insure in those markets. For the purpose of representing our risk in-force, we have computed an Effective Risk in Force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Australia, New Zealand and Canada. As of December 31, 2004, this factor was 35%.
- (2) Most of our international mortgage insurance policies provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected expiration of risk. As of December 31, 2004, our unearned premium reserves in our international mortgage insurance business were \$1.5 billion.
- (3) The ratio of incurred losses and loss adjustment expense to net premiums earned.
- (4) The ratio of an insurer's general expenses to net premiums written. In our business, general expenses consist of underwriting, acquisition and insurance expenses, net of deferrals, and amortization of DAC and intangibles.

U.S. mortgage insurance**Overview**

The U.S. private mortgage insurance industry is defined in large 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. In the first nine months of 2004, Fannie Mae purchased approximately 21.3% of all the mortgage loans originated in the U.S., and Freddie Mac purchased approximately 14.8%, according to information published by *Inside the GSEs*. Mortgages guaranteed by Fannie Mae or Freddie Mac totaled more than \$3.52 trillion as of December 31, 2004, or approximately 44% of the total outstanding mortgage debt in the U.S. In connection with these activities, Fannie Mae and Freddie Mac also have established mortgage loan origination, documentation, servicing and selling requirements and standards for the loans they purchase. In addition, Fannie Mae's and Freddie Mac's current eligibility requirements provide that they will accept private mortgage insurance only from insurers that maintain financial strength ratings of at least AA- by S&P and Aa3 by Moody's. Fannie Mae and Freddie Mac are government sponsored enterprises, and we refer to them as the GSEs.

The GSEs may purchase mortgages with unpaid principal amounts up to a specified maximum. The maximum single-family principal balance loan limit eligible for purchase by the GSEs is called the conforming loan limit. It is currently \$359,650 and subject to annual adjustment. 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 insured against default by lender recourse, participation or by a qualified insurer. As a result, high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac generally are insured

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with private mortgage insurance. Fannie Mae and Freddie Mac purchased approximately 68% of the flow loans we insured as of December 31, 2004.

The majority of our U.S. mortgage insurance policies provide default loss protection on a portion (typically 10%-40%) of the balance of an individual mortgage loan. Most of our primary mortgage insurance policies are flow insurance policies, which cover individual loans at the time the loan is originated. We also enter into bulk transactions with lenders and investors in selected instances, under which we insure a portfolio of loans for a negotiated price. Bulk insurance constituted less than 2% of our new risk written for each of the years ended December 2004, 2003 and 2002.

In addition to flow and bulk primary mortgage insurance business, we have written 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. We ceased writing pool insurance in 1993 (with the exception of a limited amount of insurance we wrote for state housing finance agencies and in connection with a sale of loans by an affiliate). We may consider writing pool insurance with state housing finance agencies and others where we believe we will be able to achieve our target returns.

The following table sets forth new risk written and risk in force in our U.S. mortgage insurance business, by product type, as of and for the periods indicated:

(Dollar amounts in millions)	As of or for the years		
	ended December 31,		
	2004	2003	2002
New risk written			
Flow insurance	\$ 6,216	\$ 12,612	\$ 10,547
Bulk insurance(1)	46	189	53
Pool insurance		2	
Total	\$ 6,262	\$ 12,803	\$ 10,600
Risk in force			
Flow insurance	\$ 22,666	\$ 25,396	\$ 27,573
Bulk insurance	303	409	431
Pool insurance	736	1,046	1,638
Total	\$ 23,705	\$ 26,851	\$ 29,642

(1) A portion of our bulk insurance is classified as pool insurance under MICA reporting rules.

Products and services

Primary mortgage insurance

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 generally are 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.

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For a 30-year fixed-rate mortgage, the most common mortgage product in the U.S., the GSEs generally require coverage percentages of 30% for loan-to-value ratios, determined at loan origination, of 90.01%-95.00%, 25% for loan-to-value ratios of 85.01%-90.00% and 12% for loan-to-value ratios of 80.01%-85.00%. However, the GSEs may alter their coverage requirements and propose different product structures, and we also offer a range of other mortgage insurance products that provide greater or lesser coverage amounts.

The borrower's mortgage loan instrument generally requires the borrower to pay the mortgage insurance premium. In other cases, no insurance requirement is imposed upon the borrower, in which case the lender pays the premium and recovers those payments through the interest rate charged on the mortgage. Our mortgage insurance premiums for flow insurance typically are paid monthly, but premiums also may be paid annually or in a single, lump-sum payment. During each of the last three years, the monthly premium plan represented more than 98% of our flow new insurance written, with the annual premium plan and the single premium plan representing the balance of our new insurance written.

We are not permitted to terminate our mortgage insurance coverage in force, except for non-payment of premium or material breach of policy conditions. The insurance remains renewable at the option of the policyholder, usually at the renewal rate fixed when the loan was initially insured. As a result, we are not able to raise prices on existing policies to respond to unanticipated default patterns. In addition, our policyholders may cancel their insurance at any time at their option, including when a mortgage is repaid, which may be accelerated by mortgage refinancings in times of falling interest rates. Cancellations are generally driven primarily by the prevailing interest rate environment and the cancellation policies of the GSEs and other investors.

Under the U.S. Homeowners Protection Act, or the HPA, a borrower generally has the right to terminate private mortgage insurance coverage on loans closed after July 28, 1999 secured by a single-dwelling property that is the borrower's primary residence when certain loan-to-value ratio thresholds are met. In general, a borrower may stop making mortgage insurance payments when the loan-to-value ratio is scheduled to reach 80% (based upon the loan's amortization schedule established at loan origination) if the borrower so requests and if certain requirements relating to the borrower's payment history and the property's value since origination are satisfied. In addition, a borrower's obligation to make payments for private mortgage insurance generally terminates regardless of whether a borrower so requests when the loan-to-value ratio reaches 78% of the unpaid principal balance of the mortgage. Some states require mortgage servicers to notify borrowers periodically of the circumstances in which they may request a mortgage servicer to cancel private mortgage insurance. Some states allow the borrower to request that the mortgage servicer cancel private mortgage insurance or require the mortgage servicer to cancel such insurance automatically when the circumstances permitting cancellation occur.

The level of new mortgage originations decreased to \$2,810 billion for the year ended December 31, 2004, from \$3,760 billion and \$2,680 billion for the years ended December 31, 2003 and 2002, respectively. This resulted in decreased levels of new mortgage insurance written. We believe the decrease in mortgage originations was due to two principal factors. First, increasing interest rates in 2004 made refinancings of existing mortgages less attractive to consumers than in recent years. Second, historically low interest rates in 2002 and 2003 contributed to substantial refinancing activity, which did not recur in 2004 because many mortgages for which refinancing would otherwise have been economically attractive were already refinanced prior to 2004. The lower level of refinancing activity resulted in an increase in our flow persistency rates from 46% for the year ended December 31, 2003 to 65% for the year ended December 31, 2004, excluding bulk transactions and the effect of a periodic payoff reconciliation on one structured transaction involving single premium mortgage insurance that today would be classified as bulk insurance. We expect the market for mortgage originations and new mortgage insurance written to stabilize as anticipated home sales in future years offset the recent decline in mortgage originations due to decreased refinancing activity.

We also are developing innovative mortgage insurance products that are designed to attract first-time home buyers and expand the scope of the traditional mortgage insurance market. For example, we recently launched our HomeOpenersSM products: MonthlyPlus, PaymentPlus and LenderPlus. Our MonthlyPlus product combines a

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mortgage insurance policy with payment protection on mortgage payments for a specified period of time in the event of involuntary job loss or accidental death. Our PaymentPlus and LenderPlus products are designed to compete with simultaneous second mortgages, as described below under Competition Mortgage lenders and other investors.

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 insured portfolio are insured to specified levels of coverage, and there is an aggregate loss limit applicable to all of the insured loans. 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. Most of our bulk insurance business has related to loans financed by lenders who participate in the mortgage programs sponsored by the Federal Home Loan Banks. Premiums for bulk transactions generally are paid monthly by lenders or investors or a securitization vehicle in connection with a securitization transaction or the sale of a loan portfolio.

The loans we insure in bulk transactions typically consist of prime credit-quality loans with loan-to-value ratios of 50% to 95%. We generally have avoided the riskier portions of the sub-prime segments of the market, because we believe market pricing for mortgage insurance on sub-prime bulk transactions has not been adequate and we have had concerns regarding the volatility of this segment. However, we may consider insuring such loans where we believe we will be able to achieve our target returns. Loans that we insure in bulk transactions with loan-to-value ratios above 80% typically have primary mortgage insurance on a flow basis, written either by us or another private mortgage insurer. Our mortgage insurance coverage levels in bulk transactions typically range from 10% to 40%.

Pool insurance

In addition to our flow and bulk primary mortgage insurance, we previously have written mortgage insurance on a pool basis. Pool insurance generally is used as an additional credit enhancement for secondary market mortgage transactions. We ceased writing pool insurance in 1993 (with the exception of a limited amount of insurance we wrote for state housing finance agencies and in connection with a sale of loans by an affiliate) because of relatively high losses on pool policies, resulting primarily from inadequate pricing, loss severity and risk concentration in certain parts of the country. However, we may consider writing pool insurance for state housing finance agencies and others where we believe we will be able to achieve our target returns.

Our remaining pool insurance in force, which relates primarily to policies written between 1990 and 1993, generally covers the loss on a defaulted mortgage loan that exceeds either 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. Mortgage loans we insured in pool insurance with loan-to-value ratios above 80% typically are covered by flow mortgage insurance, written either by us or another private mortgage insurer.

Contract underwriting services

We perform fee-based contract underwriting services for mortgage lenders. Historically, lenders and mortgage insurers each maintained underwriting staffs and performed separate, and in many ways duplicative, underwriting activities with respect to each mortgage loan. Over time, lenders and mortgage insurers have developed a number of arrangements designed to eliminate those inefficiencies. The provision of

underwriting services by mortgage insurers serves this purpose and speeds the approval process.

The principal contract underwriting service we provide is determining whether the data relating to a borrower and a proposed loan contained in a mortgage loan application file complies with the lender's loan

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underwriting guidelines or the investor's loan purchase requirements. In connection with that service, we also compile the application data and submit it to the automated underwriting systems of Fannie Mae and Freddie Mac, which independently analyze the data to determine if the proposed loan complies with their investor requirements. If the loan being reviewed requires mortgage insurance under the applicable lender or investor criteria, we also underwrite the loan to our mortgage insurance guidelines and issue the appropriate mortgage insurance coverage. We believe our contract underwriting services appeal to mortgage lenders because they enable lenders to reduce their costs and improve their operating efficiencies.

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.

New risk written by our contract underwriters represented 24% of our new risk written for the year ended December 31, 2004, compared to 23% and 26% for the years ended December 31, 2003 and 2002, respectively.

Captive Reinsurance

Captive reinsurance is a reinsurance program in which we share portions of our U.S. 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 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.

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

	As of or for the years ended December 31,		
	2004	2003	2002
Primary risk in force subject to captive reinsurance arrangements, as a percentage of total primary risk in force	66%	64%	55%
Gross written premiums ceded pursuant to captive reinsurance arrangements, as a percentage of total gross written premiums	24%	23%	18%
Primary new risk written subject to captive reinsurance arrangements, as a percentage of total primary new risk written	70%	75%	77%

We believe that the increase in the percentage of primary risk in force subject to captive reinsurance agreements was driven by a higher percentage of new insurance written generated by lenders having captive reinsurance programs during a period of high refinancing activity. Many large mortgage lenders have developed captive reinsurance affiliates, and the recent consolidation among large mortgage lenders has resulted in an increased percentage of mortgage loans originated or purchased by lenders with captive reinsurance programs. The recent low-interest-rate environment has generated significant refinancing activity in recent years, which has resulted in increased concentration of mortgage loans with larger lenders that tend to use captive reinsurance arrangements.

Many large U.S. mortgage lenders whose policies we insure have developed reinsurance operations that provide for net premium cessions from mortgage insurers of 25% to 40%. Starting in late 2003, we generally sought to exit or restructure a portion of our excess-of-loss risk sharing arrangements with premium cessions in excess of 25% to improve profitability. This resulted in a significant reduction in business from several of these lenders and a reduction in the percentage of primary new risk written that is subject to captive reinsurance

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arrangements. We then re-evaluated these relationships on a case-by-case basis, assessing various factors, including ceding terms, attachment points and quality of portfolios. As a result, we reinstated or restructured some of these arrangements.

As of December 31, 2004, other than reinsurance under captive arrangements, we reinsured less than 1% of our mortgage insurance in force.

Customers

Our principal mortgage insurance customers are originators of residential mortgage loans, such as mortgage banks, savings institutions, commercial banks, mortgage brokers, credit unions and other lenders, who typically determine which mortgage insurer or insurers they will use for the placement of mortgage insurance written on loans they originate. To obtain primary insurance written on a flow basis, a mortgage lender must first apply for and receive from us a mortgage guaranty master policy. In recent years, there has been significant consolidation among the largest lenders, which now underwrite a substantial portion of all the mortgages written in the U.S. Our top ten lenders accounted for an aggregate of 27% of our flow new insurance written for the year ended December 31, 2004.

We are focused on expanding our presence throughout the mortgage loan market by providing superior customer sales support, product offerings designed to meet the specific needs of our customers, and technology products designed to enable customers to reduce costs and expand revenues. In addition, as discussed under **Operations and Technology**, we have developed web-based technology services that enable our customers to interact more efficiently with us.

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. This analysis generally includes reviewing the following criteria:

the borrower's credit strength and history, as reported by credit reporting agencies;

the borrower's debt-to-income ratios where income is disclosed;

the loan-to-value ratio;

the type of mortgage instrument;

the purpose of the loan;

the type of property; and

appraisals to confirm the property market value is fairly stated.

Loan applications for primary 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. Some mortgage lenders also 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. Before granting a lender delegated underwriting authority, our risk management personnel review the lender's underwriting experience and processes, loan quality and specific loan programs to be included in the delegated program. In addition, we conduct audits on a sample of the delegated loans we insure to confirm that lenders with delegated authority adhere to approved underwriting guidelines and procedures.

The majority of mortgage loans we insure today are underwritten using Fannie Mae's and Freddie Mac's automated underwriting systems, or AUS, which lenders have widely adopted due to the GSEs' requirements and

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the efficiencies that AUS provide. We have evaluated loans approved by Fannie Mae's and Freddie Mac's AUS and, like other mortgage insurers, we generally have agreed to insure loans approved by these systems. Under the delegated underwriting program, lenders may use their own AUS provided we have reviewed and approved their system. AUS have automated many of the underwriting steps were previously performed by underwriters on a manual basis and use sophisticated mortgage scoring methodologies to evaluate borrower default risk. Although we review AUS before allowing their use under our delegated program, under which lenders have the responsibility to determine whether the loans comply with our approved underwriting guidelines, a potential risk to us of using AUS is factors we might otherwise evaluate in making an underwriting decision are not considered if not required by the AUS.

Loans insured under our delegated underwriting program accounted for approximately 59% of our total risk in force as of December 31, 2004, compared to 59% and 56% as of December 31, 2003 and 2002, respectively. The percentage of new risk written by delegated underwriters was 58% for the year ended December 31, 2004, compared to 62% and 61% for the years ended December 31, 2003 and 2002, respectively.

In pricing mortgage insurance policies, we generally target substantially similar returns on capital regardless of the loan-to-value ratio, product type and depth of coverage. We establish premium rates principally on the basis of long-term claims experience in the industry, reflecting periods of lower and higher losses and various regional economic downturns. We believe over the long term each region of the U.S. will be subject to similar factors affecting risk of loss on insurance written, and, therefore, we generally use a nationally based premium rate policy, rather than a regional, local or lender-based policy. Our premium rates vary with the coverage percentage and the perceived risk of a claim on the insured loan, which takes into account the loan-to-value ratio, the type of mortgage and the term of the mortgage. Our premium rates also reflect our expectations, based upon our analysis of historical data, of the persistency of the policies in our book of business. Our premium rates also take into account competitive alternatives available to consumers, including rates offered by other mortgage insurers.

Our premium rates also consider the location of the borrower's credit score within a range of credit scores. In accordance with industry practice, we use the FICO score as one indicator of a borrower's credit quality. Fair Isaac and Company, or FICO, developed the FICO credit scoring model to calculate a FICO score based upon a borrower's credit history. 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. Some of our products require a minimum FICO score and/or have rates based on FICO scores. As of December 31, 2004, on a risk in force basis, approximately 92% of our flow 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 scores of 574 or less.

As of December 31, 2004, on a risk in force basis, approximately 91% of our bulk insurance loans had FICO credit scores of at least 620, approximately 5% had FICO credit scores between 575 and 619, and approximately 4% had FICO scores of 574 or less. The majority of loans we currently insure in bulk transactions meet the conforming loan limit and have FICO credit scores of at least 620. After 2001, we significantly reduced writing insurance of loans in bulk transactions that included non-conforming and lesser-quality loans, such as A minus loans and sub-prime loans, because we believe market pricing was inadequate to compensate us for the risk.

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. For an Alt A loan, the borrower's credit strength and history and the appraised value of the property are carefully reviewed. We also impose limitations on Alt A loans, including limitations with respect to the purpose of the loan and the type of property. Alt A loans represented 2.8%, 1.9% and 2.5% of our risk in force as of December 31, 2004, 2003 and 2002, respectively.

Table of Contents**Loan portfolio**

The following table sets forth selected financial information regarding our U.S. primary mortgage insurance loan portfolio as of the dates indicated:

(Dollar amounts in millions)	December 31,		
	2004	2003	2002
Primary risk-in-force lender concentration (by original applicant)	\$ 22,969	\$ 25,805	\$ 28,004
Top 10 lenders	9,755	12,047	12,538
Top 20 lenders	11,938	14,392	15,360
Loan-to-value ratio			
95.01% and above	3,601	3,431	2,538
90.01% to 95.00%	9,450	10,759	12,313
80.01% to 90.00%	9,555	10,868	11,681
80.00% and below	363	747	1,472
Total	\$ 22,969	\$ 25,805	\$ 28,004
Loan grade			
Prime	\$ 20,704	\$ 23,408	\$ 26,025
A minus and sub-prime	2,265	2,397	1,979
Total	\$ 22,969	\$ 25,805	\$ 28,004
Loan type			
Fixed rate mortgage	\$ 21,492	\$ 24,354	\$ 26,619
Adjustable rate mortgage	1,477	1,451	1,385
Total	\$ 22,969	\$ 25,805	\$ 28,004
Type of documentation			
Alt A	\$ 633	\$ 503	\$ 708
Standard	22,336	25,302	27,296
Total	\$ 22,969	\$ 25,805	\$ 28,004
Mortgage term			
15 years and under	\$ 1,163	\$ 1,489	\$ 1,214
More than 15 years	21,806	24,316	26,790
Total	\$ 22,969	\$ 25,805	\$ 28,004

Loans in default and claims

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Our default management process begins with notification by the loan servicer of a default on an insured loan. Default is defined in our master policies as the borrower's failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, the master policies require an insured to notify us of a default no later than ten days after the borrower has been in default by three monthly payments. In most cases, however, defaults are reported earlier. We generally consider a loan to be in default and establish reserves if the borrower has failed to make a required mortgage payment for two consecutive months. Borrowers default for a variety of reasons, including a reduction of income, unemployment, divorce, illness, inability to manage credit and interest rate levels. Borrowers may cure defaults by making all of the delinquent loan payments or by selling the property in full satisfaction of all amounts due under the mortgage. In most cases, defaults that are not cured result in a claim under our policy.

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The following table sets forth the number of loans insured, the number of loans in default and the default rate for our U.S. mortgage insurance portfolio:

	December 31,		
	2004	2003	2002
Primary Insurance			
Insured loans in force	830,688	950,157	993,906
Loans in default	28,467	32,207	33,278
Percentage of loans in default (default rate)	3.4%	3.4%	3.3%
Flow loans in force	719,533	839,891	948,224
Flow loans in default	26,737	29,787	30,194
Percentage of flow loans in default (default rate)	3.7%	3.5%	3.2%
Bulk loans in force	111,155	110,266	45,682
Bulk loans in default	1,730	2,420	3,084
Percentage of bulk loans in default (default rate)	1.6%	2.2%	6.8%
A minus and sub-prime loans in force	69,817	75,584	63,646
A minus and sub-prime loans in default	7,068	6,881	5,547
Percentage of A minus and sub-prime loans in default (default rate)	10.1%	9.1%	8.7%
Pool Insurance			
Insured loans in force	25,303	37,702	55,195
Loans in default	777	855	1,505
Percentage of loans in default (default rate)	3.1%	2.3%	2.7%

Primary insurance default rates differ from region to region in the U.S. at any one time depending upon economic conditions and cyclical growth patterns. The two tables below set forth our primary default rates for the various regions of the U.S. and the ten largest states by our risk in force as of December 31, 2004. Default rates are shown by region based upon location of the underlying property, rather than the location of the lender.

	Percent of primary risk in force as of December 31,	Default rate December 31,		
		2004	2003	2002
		2004	2003	2002
U.S. Regions				
Southeast(1)	22%	3.87%	3.59%	3.51%
South Central(2)	17%	3.82%	3.65%	3.45%
Northeast(3)	13%	3.79%	3.88%	3.87%
North Central(4)	13%	2.80%	2.71%	2.94%
Pacific(5)	11%	2.11%	2.54%	2.94%
Great Lakes(6)	9%	4.61%	4.33%	4.08%
Plains(7)	6%	2.57%	2.54%	2.43%
Mid-Atlantic(8)	5%	2.85%	2.94%	3.25%
New England(9)	4%	2.46%	2.79%	2.82%

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Total	100%	3.43%	3.38%	3.34%
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- (1) Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina and Tennessee.
 - (2) Arizona, Colorado, Louisiana, New Mexico, Oklahoma, Texas and Utah.
 - (3) New Jersey, New York and Pennsylvania.
 - (4) Illinois, Minnesota, Missouri and Wisconsin.
 - (5) Alaska, California, Hawaii, Nevada, Oregon and Washington.
 - (6) Indiana, Kentucky, Michigan and Ohio.
 - (7) Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota and Wyoming.
 - (8) Delaware, Maryland, Virginia, Washington, D.C. and West Virginia.
 - (9) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

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	Percent of primary risk in force as of December 31,		Default Rate December 31,	
	2004	2004	2003	2002
	Florida	8.15%	2.80%	2.75%
Texas	6.92%	4.70%	4.15%	3.80%
New York	5.87%	3.06%	3.47%	3.46%
Illinois	5.55%	3.26%	3.23%	3.66%
California	4.72%	1.39%	1.91%	2.45%
North Carolina	3.90%	4.33%	4.12%	3.68%
Pennsylvania	3.87%	4.79%	4.38%	4.49%
Georgia	3.67%	4.92%	4.68%	4.40%
Arizona	3.64%	2.63%	3.18%	3.52%
Ohio	3.63%	5.13%	4.64%	4.20%

Claim activity is not spread evenly throughout the coverage period of a primary insurance book of business. Based upon our experience, the majority of claims on primary mortgage insurance loans occur in the third through seventh years after loan origination, and relatively few claims are paid during the first two years after loan origination. Primary insurance written from the period from January 1, 1997 through December 31, 2001 represented 13% of our primary insurance in force as of December 31, 2004. This portion of our loan portfolio is in its expected peak claim period with respect to traditional primary loans. We believe our A minus and sub-prime loans will have earlier incidences of default than our prime loans. A minus loans represented 4.4% and 3.5% of our primary risk in force as of December 31, 2004 and 2003, respectively, and sub-prime loans represented 5.5% and 5.8% of our primary risk in force as of December 31, 2004 and 2003, respectively.

The following table sets forth the dispersion of our primary insurance in force and risk in force as of December 31, 2004, by year of policy origination and average annual mortgage interest rate since we began operations in 1981:

Policy Year	Average rate	Primary insurance		Primary risk in	
		in force	Percent of total	force	Percent of total
1981-92	9.21%	\$ 1,423	1.31%	\$ 316	1.38%
1993	7.41%	989	0.91%	205	0.89%
1994	7.68%	1,103	1.01%	241	1.05%
1995	8.22%	820	0.75%	220	0.96%
1996	7.92%	902	0.83%	244	1.06%
1997	7.82%	825	0.76%	221	0.96%
1998	7.11%	2,301	2.11%	583	2.54%
1999	7.23%	2,559	2.35%	640	2.79%
2000	8.15%	1,546	1.42%	385	1.68%
2001	7.42%	6,457	5.93%	1,546	6.73%
2002	6.50%	15,398	14.14%	3,570	15.54%
2003	5.62%	48,962	44.95%	9,108	39.65%
2004	5.81%	25,634	23.53%	5,690	24.77%

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Total portfolio	6.30%	\$ 108,919	100.00%	\$ 22,969	100.00%
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Primary mortgage insurance claims paid, including loss adjustment expenses, or LAE, for the year ended December 31, 2004 were \$146 million, compared to \$117 million and \$105 million for the years ended December 31, 2003 and 2002, respectively. Pool insurance claims paid for the year ended December 31, 2004 were \$1 million, compared to \$1 million and \$4 million for the years ended December 31, 2003 and 2002, respectively.

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The frequency of defaults may not correlate directly with the number of claims received because the rate at which defaults are cured is influenced by borrowers' financial resources and circumstances and regional economic differences. Whether an uncured default leads to a claim principally depends upon the borrower's equity at the time of default and the borrower's or the insured's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage loan. When we receive notice of a default, we use a proprietary model to determine whether a delinquent loan is a candidate for work-out. When the model identifies such a candidate, our loan workout specialists prioritize cases for loss mitigation based upon the likelihood that the loan will result in a claim. Loss mitigation actions include loan modification, extension of credit to bring a loan current, foreclosure forbearance, pre-foreclosure sale, and deed-in-lieu. These loss mitigation efforts often are an effective way to reduce our claim exposure and ultimate payouts.

Our policies require the insured to file a claim with us, specifying the claim amount (unpaid principal, interest and expenses), no later than 60 days after it has acquired title to the underlying property, usually through foreclosure. The claim amount is subject to our review and possible adjustment. Depending upon the applicable state foreclosure law, an average of approximately 16 months elapse from the date of default to the filing of a claim on an uncured default. Our master policies exclude coverage for physical damage whether caused by fire, earthquake or other hazard where the borrower's default was caused by an uninsured casualty.

We have the right to rescind coverage and refuse to pay a claim if it is determined that the insured or its agents misrepresented material information in the insurance application. In addition, where loans are underwritten by lenders through our delegated underwriting program, we have the right to rescind coverage if the loan was not underwritten in compliance with our approved guidelines.

Within 60 days after a claim and supporting documentation have been filed, we have the option:

to pay the claim amount, multiplied by coverage percentage specified in the certificate of insurance;

in the event the property is sold pursuant to an agreement made prior to payment of the claim, which we refer to as a pre-arranged sale, to pay the lesser of 100% of the claim amount less the proceeds of sale of the property, or the claim amount multiplied by the coverage percentage; or

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. We bear the risk of any loss in connection with the acquisition and sale of the property.

For the year ended December 31, 2004, we settled a majority of the primary insurance claims processed for payment on the basis of a pre-arranged sale.

The ratio of the claim paid to the unpaid principal amount multiplied by the coverage percentage is referred to as claim severity. The main determinants of claim severity are the age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses. These amounts depend partly upon the time required to complete foreclosure, which varies depending upon state laws. Pre-foreclosure sales, acquisitions and other early workout efforts help to reduce overall claim severity. Our average primary mortgage insurance claim severity was 94%, 93% and 93% for the years 2004, 2003 and 2002, respectively.

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 Federal Home Loan Banks. We also compete, indirectly, with structured transactions in the capital markets and with other financial instruments designed to mitigate credit risk.

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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 FHA and, to a lesser degree, the VA. The following table sets forth the relative mortgage insurance market share of FHA/VA and private mortgage insurers over the past five years:

	December 31,				
	2004	2003	2002	2001	2000
FHA/VA	32.8%	36.4%	35.6%	37.3%	41.4%
Private mortgage insurance	67.2%	63.6%	64.4%	62.7%	58.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Inside Mortgage Finance.

Loans insured by the FHA cannot exceed maximum principal amounts that are determined by a percentage of the conforming loan limit. For 2005, the maximum FHA loan amount for homes with one dwelling unit in high cost areas is \$312,859 and the maximum VA loan amount is \$359,650. We and other private mortgage insurers are not limited as to maximum individual loan amounts we can insure.

In January 2001, the FHA reduced the up-front mortgage insurance premium it charges on loans from 2.25% to 1.5% of the original loan amounts. The FHA has also streamlined its down-payment formula, making FHA insurance more competitive with private mortgage insurance in areas with higher home prices. These and other legislative and regulatory changes could cause future demand for private mortgage insurance to decrease.

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. From time to time, other state legislatures and agencies consider expansions of the authority of their state governments to insure residential mortgages.

Government entities with which we compete typically do not have the same capital requirements and do not have the same profit objectives as we do. Although private companies establish pricing terms for their products to achieve targeted returns, these government entities may offer products on terms designed to accomplish social or political objectives or reflect other non-economic goals.

Private mortgage insurers. The private mortgage insurance industry is highly competitive. The private mortgage insurance industry currently consists of seven mortgage insurers plus our company.

The other companies are Mortgage Guaranty Insurance Corporation; PMI Mortgage Insurance Company; CMG Mortgage Insurance Company, a joint venture in which PMI is one of the partners; Radian Guaranty Inc.; Republic Mortgage Insurance Co., an affiliate of Old Republic International; Triad Guaranty Insurance Corp.; and United Guaranty Residential Insurance Company, an affiliate of American International

Group, Inc.

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. Simultaneous second loans are also often known as 80-10-10 loans, because they often comprise a first mortgage with an 80% loan-to-value ratio, a second mortgage with a 10% loan-to-value ratio and the remaining 10% paid in cash by the buyer, rather than a single mortgage with a 90% loan-to-value ratio. However, simultaneous seconds also can be structured as 80-15-5 loans or 80-20-0 loans, as well as other configurations.

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Over the past several years, we believe the volume of simultaneous second loans as an alternative to loans requiring private mortgage insurance has increased substantially. We believe this recent increase reflects the following factors:

the lower cost of simultaneous second loans compared to the cost of mortgage insurance, due to the current low-interest-rate environment and the emerging popularity of 15- and 30-year amortizing and adjustable rate simultaneous seconds;

the fact that second mortgage interest is generally tax-deductible, whereas mortgage insurance payments currently are not tax-deductible (although from time to time there have been proposed legislative initiatives to permit deductions for mortgage insurance payments);

negative consumer, broker and realtor perceptions of private mortgage insurance; and

the desire by some investors to hold second mortgages.

We are developing mortgage insurance products that seek to enhance the appeal of private mortgage insurance in view of the increasing volume of simultaneous second loans. For example, in 2004, we launched our HomeOpenersSM suite of products designed to compete more effectively with simultaneous second loans by offering consumers lower monthly payments, more deductible interest and involuntary job loss protection at no additional cost.

Mortgage lenders also may compete with mortgage insurers as a result of legislation that has removed restrictions on affiliations between banks and insurers. The Graham-Leach-Bliley Act of 1999 permits the combination of banks, insurers and securities firms under one holding company. This legislation may increase competition by increasing the number, size and financial strength of potential competitors. In addition, mortgage lenders that establish or affiliate with competing mortgage insurers may reduce their purchases of our products.

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.

The GSEs Fannie Mae and Freddie Mac. 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 under Primary mortgage insurance, 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.

The GSEs are currently subject to oversight by the Department of Housing and Urban Development, or HUD. In November 2004, HUD announced new GSE mortgage purchase requirements, known as affordable housing goals. Under these goals, which became effective January 1, 2005, the minimum percent of all loans purchased by the GSEs that must support low- and moderate-income homebuyers increases annually from 50% in 2004 to 56% in 2008, and the minimum percent of such loans that must be on properties in underserved areas increases annually from 36% in 2004 to 39% in 2008. The GSEs' goals to expand purchases of affordable housing loans have increased the size of the mortgage insurance market. The GSEs also have expanded programs to include commitments to purchase certain volumes of loans with loan-to-value ratios greater than 95%.

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 on low-down-payment mortgages they purchase.

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Federal Home Loan Banks. In October 1999, the Federal Housing Finance Board, or FHF Board, adopted resolutions that authorize each Federal Home Loan Bank, or FHLB, to offer Mortgage Partnership Finance Programs, or MPF Programs, to purchase single-family conforming mortgage loans originated by participating member institutions. In July 2000, the FHF Board gave permanent authority to each FHLB to purchase these loans from member institutions without any volume cap. In October 2000, the FHF Board approved the Mortgage Purchase Programs, or MPPs, to purchase single-family conforming mortgage loans, similar to the MPF Programs.

The MPF and MPP Programs are similar to the purchase of mortgage loans by the GSEs. 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% and have become a source of increasing new business for us. However, to the extent that the FHLBs purchased uninsured mortgage loans or used other credit-enhancement products, the MPF and MPP Programs could result in a decrease in the size of the market for private mortgage insurance.

International mortgage insurance

We have significant mortgage insurance operations in Australia and Canada, two of the largest markets for mortgage insurance products outside the U.S., as well as in the smaller New Zealand market and the developing European market. The net premiums written in our international mortgage insurance business have increased by a compound annual growth rate of 45% for the three years ended December 31, 2004. Insurance in-force for our international mortgage insurance business contributed 64% of our total insurance in-force as of December 31, 2004 compared to 53% as of December 31, 2003 and 40% as of December 31, 2002. In addition, earnings from our international mortgage insurance business represented 47%, 39% and 19% of our mortgage insurance net earnings for the years ended December 31, 2004, 2003 and 2002, respectively, representing a compound annual growth rate of 54% from 2002 to 2004.

The mortgage loan markets in the U.S., Canada, Australia and New Zealand are well developed. Although mortgage insurance plays an important role in each of these markets, the markets vary significantly and are influenced in large part by the different cultural, economic and regulatory conditions in each market. We believe the following factors have contributed to the growth of robust mortgage insurance demand in these countries:

a desire by lenders to offer low-down-payment mortgage loans to facilitate the expansion of their business;

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 increased credit risk on low-down-payment mortgages to third parties, such as mortgage insurers.

We believe a number of these factors are becoming evident in certain markets throughout Europe, Latin America and Asia and provide opportunities for us to expand our mortgage insurance business in those markets.

Based upon our experience in the mature markets, we believe a favorable regulatory framework is important to the development of an environment in which lenders routinely extend high loan-to-value loans and use products such as mortgage insurance to protect against default risk or obtain capital relief. As a result, we have advocated governmental and policymaking agencies throughout our markets adopt legislative and regulatory policies supporting increased homeownership and capital relief for lenders and mortgage investors that insure

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their loan portfolios with private mortgage insurance. Although the products we offer in each of our international markets differ, they represent substantially similar risk propositions and involve similar business practices. We have developed significant expertise in mature markets, and we leverage this experience in developing markets as we continue to encourage regulatory authorities to implement incentives for private mortgage insurance as an effective risk management strategy.

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. For example, Basel II may reward a lender that transfers some risk of mortgage default to a third-party insurer by reducing the amount of capital that the lender must hold to back a mortgage. Basel II was finalized and issued in June 2004; however, its adoption by individual countries is ongoing. Therefore, we cannot predict the benefits that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance.

We believe certain markets in Europe, Latin America and Asia have strong demand for housing, but are underserved by the existing housing finance systems. As a result, we believe that mortgage insurance could enhance the overall scale, effectiveness and efficiency of these mortgage markets.

We believe lenders in these countries will seek to expand their consumer mortgage loan portfolios, while maintaining strong risk and capital management routines. With the expected implementation of the new Basel II standards, we believe we will be well positioned to assist lenders in these markets in meeting those goals and in complying with the anticipated complexity of the risk-based capital and operating standards.

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 the only private mortgage insurer in the Canadian market.

Products

We offer two products in Canada: primary flow insurance and portfolio credit enhancement insurance. Our principal product is primary flow insurance, which is similar to the primary flow insurance we offer in the U.S. Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by banks, trust companies and insurers, where the loan-to-value ratio exceeds 75%. Mortgage insurance in Canada is typically single premium and provides 100% coverage, in contrast to the U.S., where monthly premiums and lower coverage levels are typical. Under the single-premium plan, lenders usually include the single premium as a part of the aggregate loan amount and pay a single premium to us as the mortgage insurer. We, in turn, record the proceeds to unearned premium reserves, invest those proceeds and recognize the premiums over time in accordance with the expected expiration of risk.

We also provide portfolio credit enhancement insurance to lenders that have originated loans with loan-to-value ratios of less than 75%. 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.

The leading mortgage product in the Canadian market is a mortgage with the interest rate fixed for the first five years of the loan. After the fifth year, the loan becomes due and payable and the borrower must negotiate its renewal, at which time the borrower may choose to have the interest rate float or have it fixed for an additional

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period. Lenders typically charge a mortgage pre-payment penalty that serves as a disincentive for borrowers to refinance their mortgages. Changes in interest rates, adverse economic conditions and high levels of borrowing affect the frequency of defaults and claims with respect to these loans, which may adversely affect our loss experience.

Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by banks, trust, companies and insurers with loan-to-value ratios greater than 75%. In February 2005, as part of a periodic review of the federal financial services regulatory framework, the Canadian Department of Finance issued a consultation document seeking comment on a wide variety of potential initiatives relating to the regulation of financial services, including whether to remove the statutory requirement for mortgage insurance on all loans with loan-to-value ratios greater than 75%. The removal of the statutory requirement for mortgage insurance, in whole or in part, may result in a reduction in the amount of business we write in future years in Canada. See Regulation Mortgage Insurance International Regulation Canada.

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 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%.

Our agreement with the Canadian government provides that we and the government are entitled to review the terms of the guarantee when certain pricing assumptions have changed or other events have occurred that cause either party to believe these changes or other events have resulted in unfairness, prejudice or obvious hardship. In this event, the agreement requires us to negotiate in good faith for six months to make such modifications as are required to remove or modify the unfairness, prejudice or obvious hardship. If we and the government are unable to agree on appropriate changes to the guarantee, the matter must be referred to binding arbitration.

In addition, our agreement with the Canadian government provides that the government has the right to review the terms of the guarantee if GE's ownership of our Canadian mortgage insurance company decreases below 50% or certain other events occur that affect the purposes of the agreement or the government's risk or exposure under the guarantee. In this event, the agreement requires us to negotiate in good faith to make such modifications as are required to remove or modify any unfairness, prejudice or obvious hardship that may have resulted from the change in ownership or other events. If we are unable to agree on appropriate modifications within six months, the agreement may be terminated for any new insurance written after the termination. When GE reduces its equity ownership of us to below 50%, that reduction would permit the Canadian government to review the terms of its guarantee and could lead to a modification or termination of the guarantee for any new insurance written after the termination. Although we believe the Canadian government will preserve the guarantee to maintain competition in the Canadian mortgage insurance industry, any adverse change in the guarantee's terms and conditions or termination of the guarantee could have a material adverse effect on our ability to continue offering mortgage insurance products in Canada.

Customers

The nine largest mortgage originators in Canada, consisting of banks, trust companies, and credit unions, collectively provide more than 80% of the financing for Canada's residential mortgage financing. These nine originators provided us with 87%, 85% and 86% of our new insurance written for the years ended December 31, 2004, 2003 and 2002, respectively. Other market participants include regional banks, trust companies

and credit unions.

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Competitors

The only other mortgage insurance competitor in Canada is the Canada Mortgage and Housing Corporation, or CMHC, which is a Crown corporation owned by the Canadian government. Because CMHC is a government-owned entity, its mortgage insurance provides lenders with 100% capital relief from bank regulatory requirements. CMHC also operates the Canadian Mortgage Bond Program, which provides lenders the ability to efficiently guaranty and securitize their mortgage loan portfolios. 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 terms of product development. In July 2003 the CMHC announced a 15% reduction in rates, which we have matched. This rate reduction or other actions taken by the CMHC to reduce rates or compete with us in other ways may cause our revenue in our Canadian mortgage insurance business to decline. In addition, as in other markets, we compete in Canada with alternative products and financial structures, such as credit default swaps and captive insurers owned by lenders, which are designed to transfer credit default risk on mortgage loans.

Australia and New Zealand

We entered the Australian mortgage insurance market in 1997 with our acquisition of the operating assets of the Housing Loans Insurance Corporation, or HLIC, from the Australian government. We entered the New Zealand mortgage insurance market in 1999 as an expansion of our Australian operations.

Products

In Australia and New Zealand, we offer primary flow insurance, known as lenders mortgage insurance, or LMI, and portfolio credit enhancement policies. Our principal product is LMI, which is similar to the primary flow insurance we offer in Canada, with single premiums and 100% coverage. Lenders usually collect the single premium from prospective borrowers at the time the loan proceeds are advanced and remit the amount to us as the mortgage insurer. We in turn record the proceeds to unearned premium reserves, invest those proceeds and recognize the premiums over time in accordance with the expected expiration of risk.

We provide LMI on a flow basis to two types of customers: banks, building societies and 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%, because reduced capital requirements apply to high loan-to-value residential mortgages only if they have been insured by, under requirements currently in effect, an A rated, or equivalently rated, mortgage insurance company that is regulated by the Australian Prudential Regulation Authority, or APRA. After October 1, 2004, non-standard loans with a loan to value ratio above 60% are entitled to a reduced capital requirement only if they meet strict requirements as established by APRA or are insured by a qualified LMI. APRA's regulations currently require APRA-regulated lenders to determine the criteria for determining if a loan is a non-standard type loan. Our insurance subsidiary that serves the Australian and New Zealand markets has financial-strength ratings of AA (Very Strong) from S&P and Fitch and a rating of Aa2 (Excellent) from Moody's. The AA rating is the third-highest of S&P's 20 ratings categories and the third-highest of Fitch's 24 ratings categories. The Aa2 rating is the third-highest of Moody's 21 ratings categories.

Mortgage managers fund their operations primarily through the issuance of mortgage-backed securities. Because they are not regulated by APRA, they do not have the same capital incentives as banks for acquiring LMI. However, they use LMI as the principal form of credit enhancement for these securities and generally purchase insurance for every loan they originate, without regard to the loan-to-value ratio.

We also provide portfolio credit enhancement policies to APRA-regulated lenders that have originated loans for securitization in the Australian market. Portfolio mortgage insurance serves as an important source of credit enhancement for the Australian securitization market, and our portfolio credit enhancement coverage generally is

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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.

In both primary LMI and portfolio credit enhancement policies, our mortgage insurance provides insurance coverage for the entire unpaid loan balance, including selling costs and expenses, following the sale of the security property. Most of the loans we insure in Australia and New Zealand are variable rate mortgages with loan terms of between 20 and 30 years.

In connection with our acquisition of the operating assets of HLIC in 1997, we agreed to service a mortgage insurance portfolio that was retained by the Australian government. We receive a small amount of management fees for handling claims and providing loss mitigation and related services, but we did not acquire HLIC's originated insurance policies and do not bear any risk on those policies.

Customers

The ten largest mortgage originators in Australia, consisting of seven banks and three mortgage managers, collectively provide more than 80% of Australia's and New Zealand's residential mortgage financing. These ten originators provided us with 78%, 78% and 77% of our new insurance written for the years ended December 31, 2004, 2003 and 2002, respectively. Other market participants in Australian and New Zealand mortgage lending include regional banks, building societies and credit unions.

Competitors

The Australian and New Zealand flow mortgage insurance markets currently are served by one other independent 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. As in Canada, 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. We believe other U.S. mortgage insurance providers are considering opportunities in Australia.

APRA's license conditions require Australian mortgage insurance companies, including ours, to be mono-line insurers, which are insurance companies that offer just one type of insurance product.

Europe

We began our European operations in 1994 in the U.K., which is Europe's largest market for mortgage loan originations. We expanded into five additional countries between 1999 and 2004, and we continue to explore opportunities in other European countries. Mortgage insurance originating in the U.K. accounted for approximately 54% of our European mortgage insurance in force as of December 31, 2004 as compared to 84% as of December 31, 2003. This large concentration in the U.K. is attributable primarily to the fact that we have been operating in that country considerably longer than in any other European country. Our growth in other European countries has helped to diversify our risk.

Products

Our European business currently consists principally of primary flow insurance on adjustable-rate mortgages. As is the case in our other non-U.S. markets, most primary flow insurance policies written in Europe are structured with single premium payments. Our primary flow insurance generally provides first-loss coverage in the event of default on a portion (typically 10%-20%) of the balance of an individual mortgage loan. We believe that, over time, there is an opportunity to provide additional products with higher coverage percentages to reduce the risks to lenders of low-down-payment lending to levels similar to those in more mature mortgage insurance markets. We also recently began offering portfolio credit enhancement policies to lenders that have originated loans for securitization in select European markets.

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As a result of our strategy to expand organically into new markets in Europe with attractive growth potential, we have diversified our risk among six countries, thereby reducing our historical concentration in the U.K. Our portfolio of international mortgage insurance in force in Europe is concentrated in the countries where we have been active for the longest period of time and with customers with whom we have been doing business for the longest period of time. We expect this concentration to diminish over time. Our customers are primarily banks and mortgage investors, and our largest customer in Europe represented 31% of our new insurance written for the year ended December 31, 2004.

Competitors

Our European business faces competition from both traditional mortgage insurance companies as well as providers of alternative credit enhancement products. Our competitors are both public and private entities. Public mortgage guarantee facilities exist in a number of countries, which may compete with our products. We also face competition from affiliates of other U.S. private mortgage insurers, such as PMI, Radian and United Guaranty Residential Insurance Company, as well as multi-line insurers primarily in the U.K. and the Republic of Ireland, such as Norwich Union and Legal & General.

We also face competition from alternative credit enhancement products, such as personal guarantees on high loan-to-value loans, second mortgages and bank guarantees, and captive insurance companies organized by lenders. Lenders also have sought other forms of risk transfer, such as the use of capital market solutions through credit derivatives. In addition, some European lenders have chosen to price for and retain the additional credit risk, effectively self-insuring their low-down-payment loans. We believe that our global expertise, coverage flexibility, and strong ratings provide a very valuable offering compared with competitors and alternative products.

Loan portfolio

The following table sets forth selected financial information regarding the effective risk in force of our international mortgage insurance loan portfolio as of the dates indicated:

(Dollar amounts in millions)	December 31,		
	2004	2003	2002
Loan-to-value ratio			
95.01% and above	\$ 515	\$ 132	\$ 12
90.01% to 95.00%	14,707	11,549	6,884
80.01% to 90.00%	23,841	15,762	8,718
80.00% and below	22,944	15,926	10,091
Total	\$ 62,007	\$ 43,369	\$ 25,705
Loan type			

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Fixed rate mortgage	\$	\$	\$
Adjustable rate mortgage	62,007	43,369	25,705
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 62,007	\$ 43,369	\$ 25,705
	<u> </u>	<u> </u>	<u> </u>
Mortgage term			
15 years and under	\$ 26,138	\$ 17,486	\$ 11,813
More than 15 years	35,869	25,883	13,892
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 62,007	\$ 43,369	\$ 25,705
	<u> </u>	<u> </u>	<u> </u>

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Our businesses in Australia, New Zealand and Canada currently provide 100% coverage on the majority of the loans we insure in those markets. The table above presents effective risk in force, which recognizes the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in force has been calculated by applying to insurance in force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Australia, New Zealand and Canada. As of December 31, 2004, this factor was 35%.

Loans in default and claims

The claim process in our international mortgage insurance business is similar to the process we follow in our U.S. mortgage insurance business. See [Mortgage Insurance U.S. mortgage insurance Loans in default and claims](#). The following table sets forth the number of loans insured, the number of loans in default and the default rate for our international mortgage insurance portfolio:

	December 31,		
	2004	2003	2002
Primary insurance			
Insured loans in force	1,591,485	1,282,731	1,054,703
Loans in default	5,304	4,926	3,641
Percentage of loans in default (default rate)	0.3%	0.4%	0.4%
Flow loans in force			
Flow loans in force	1,346,035	1,044,131	753,314
Flow loans in default	5,084	4,679	3,268
Percentage of flow loans in default (default rate)	0.4%	0.5%	0.4%
Portfolio credit enhancement loans in force	245,450	238,600	301,389
Portfolio credit enhancement loans in default	220	247	373
Percentage of portfolio credit enhancement loans in default (default rate)	0.1%	0.1%	0.1%

Corporate and Other

Our Corporate and Other segment consists of net realized investment gains (losses), and unallocated corporate income and expenses (including amounts accrued in settlement of class action lawsuits), interest, and other financing expenses that are incurred at our holding company level. This segment also includes the results of Viking Insurance Company, GE Seguros and a few other small, non-core businesses that are managed outside our operating segments.

Our subsidiary, Viking Insurance Company, is a Bermuda-based reinsurer primarily of leased equipment insurance and consumer credit insurance underwritten by American Bankers Insurance Company, or ABIC. GE's Vendor Financial Services business purchases property and casualty insurance from ABIC on behalf of certain of its lessees to cover leased equipment. ABIC then reinsures those policies with Viking. GE's Card Services business develops and markets credit insurance through credit card issuers, retailers and banks. These credit insurance policies also are underwritten by ABIC and then reinsured with Viking.

Viking also has an in-force block of reinsurance of U.S. and Canadian consumer auto warranties and property and casualty gap insurance that protects consumers from the risk of loss on any difference between the value of an automobile and any loans secured by it. We do not intend to

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enter into any new warranty or gap insurance reinsurance treaties, and the existing treaties are in run-off, with the remaining program expiring gradually through 2008.

Vendor Financial Services ceased purchasing new insurance coverage on behalf of lessees through ABIC, as of March 1, 2004, and Card Services intends to phase out marketing credit insurance over the next several years. GE Capital has agreed to take all commercially reasonable efforts to maintain the relevant existing insurance and

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reinsurance relationships, but we expect Viking's reinsurance programs with GE's Card Services business and Vendor Financial Services to decline steadily over the next several years and, ultimately, be discontinued. With respect to Card Services' credit insurance, GE Capital may decide to encourage a switch of existing coverages to another program. In that event, GE Capital has agreed to pay Viking an amount equal to the net underwriting income Viking is projected to receive as reinsurer from the date of discontinuation of any credit insurance program through December 31, 2008.

Our subsidiary, GE Seguros, is a small Mexican-domiciled multi-line insurer. We acquired this business in 1995 and currently hold 99.6% of its outstanding shares. GE Seguros is licensed to sell property and casualty, life and health insurance in Mexico.

GE Seguros currently writes primarily motor vehicle coverage for personal and commercial domestic vehicles and personal coverage for tourist vehicles. It also writes a small amount of homeowners', commercial property, transport and life insurance. GE Seguros distributes its products through independent agents in Mexico and, for the tourist auto business, it also distributes its products through agents located in key U.S. border locations. GE Seguros maintains agency relationships through its branch offices in major Mexican cities.

Viking, GE Seguros and other small, non-core businesses had aggregate net earnings of \$44 million, \$28 million and \$42 million for the years ended December 31, 2004, 2003 and 2002, respectively.

International Operations

Information regarding our U.S. and international operations is presented in note 23 to our financial statements, included elsewhere in this prospectus.

Distribution

We distribute our products through an extensive and diversified distribution network that is balanced between independent sales intermediaries, including financial intermediaries and independent producers, and dedicated sales specialists. We believe this access to a variety of distribution channels enables us to respond effectively to changing consumer needs and distribution trends. We compete with other financial institutions to attract and retain commercial relationships in each of these channels, and our success in competing for sales through these sales intermediaries depends upon factors such as the amount of sales commissions and fees we pay, the breadth of our product offerings, the strength of our brand, our perceived stability and our financial strength ratings, the marketing and services we provide to them and the strength of the relationships we maintain with individuals at those firms. We have strategically positioned our multi-channel distribution network to capture a broad share of the distributor and consumer markets and to accommodate different consumer preferences in how to purchase insurance and financial services products.

Protection and Retirement Income and Investments segments

Our Protection and Retirement Income and Investments segments both distribute their products through the following channels:

financial intermediaries, including banks, securities brokerage firms, and independent broker/dealers;

independent producers, including brokerage general agencies, or BGAs, affluent market producer groups and specialized brokers;
and

dedicated sales specialists, including long-term care sales agents and affiliated networks of both accountants and personal financial advisers.

The following table sets forth our annualized first-year premiums and deposits for the products in our Protection and Retirement Income and Investments segments (other than our payment protection insurance

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business), categorized by each of our distribution channels. For our payment protection insurance business, the following table sets forth written premiums, gross of reinsurance and cancellations, because historically we have not tracked annualized first-year premiums for this business.

(Dollar amounts in millions)	Year ended December 31, 2004				Year ended December 31, 2003			
	Financial intermediaries	Independent producers	Dedicated sales specialists	Total	Financial intermediaries	Independent producers	Dedicated sales specialists	Total
Annualized first-year premiums and deposits(1)								
Protection								
Life insurance	\$ 7	\$ 135	\$ 2	\$ 144	\$ 10	\$ 145	\$ 8	\$ 163
Long-term care insurance	41	47	74	162	53	48	139	240
Group life and health insurance		171		171		144		144
Retirement Income and Investments								
Spread-based retail products	2,136	848	34	3,018	1,361	812	82	2,255
Spread-based institutional products		2,151		2,151		1,911		1,911
Fee-based products	1,018	678	542	2,238	1,934	767	378	3,079
Written premiums(2)								
Protection								
Payment protection insurance	1,501			1,501	2,175			2,175

(1) Annualized first-year premiums and deposits reflect the amount of business we generated during a specified period. We consider annualized first-year premiums and deposits to be a measure of our operating performance because they represent a measure of new sales of insurance policies and additional investments by our customers during a specified period, rather than a measure of our revenues or profitability during that period.

(2) Reflects written premiums, gross of reinsurance and cancellations.

Financial intermediaries

We have selling agreements with approximately 1,000 financial intermediaries in the U.S., including banks, securities brokerage firms and independent broker/dealers. We use financial intermediaries to distribute a significant portion of our deferred and income annuities and other investment products, and long-term care insurance. They also distribute a small portion of our life insurance policies to their individual clients. We have approximately 200 wholesalers in the U.S. who are our employees and who work to develop sales relationships with new financial intermediaries and to expand sales with existing financial intermediaries. In addition, we have 174 distributors, most of whom are financial intermediaries, for our payment protection insurance products.

Independent producers

Brokerage general agencies. We distribute most of our products, including life insurance, annuities and long-term care insurance through approximately 565 independent BGAs located throughout the U.S. BGAs market our products, and those of other insurance companies, through a network of approximately 290,000 independent brokers who sell our products.

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Affluent market producer groups. Through strong relationships with several industry-leading affluent market producer groups, we have access to approximately 6,300 producers who sell our products. These groups target high-net-worth individuals, which we define to include households with at least \$1 million of liquid assets, as well as small to medium-size businesses, which we define as those with fewer than 1,000 employees. We distribute life insurance, long-term care insurance and annuity products through these groups.

Specialized brokers. We distribute many of our products through brokers that specialize in a particular insurance or investment product and deliver customized service and support to their clients. We use a network of

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approximately 600 specialized independent brokers to distribute structured settlements. We believe we have one of the oldest and largest distribution systems for structured settlements and our relationships with many of these specialized brokers date back more than 20 years. We distribute our group life and health insurance products and services through an independent network of approximately 4,000 licensed group life and health brokers and agents that are supported by our nationwide sales force of approximately 100 employees. These group brokers and agents typically specialize in providing employee benefit and retirement solution services to employers. We also distribute GICs and funding agreements through a group of approximately 35 specialized brokers and investment managers.

Dedicated sales specialists

Long-term care agents. We have approximately 1,200 active sales agents who specialize in selling our long-term care insurance products. These sales agents also sell our Medicare supplement insurance product and the products of other insurers on a select basis. We employ the individuals who manage and support the dedicated sales specialists. We compensate our long-term care agents primarily on a commission basis. To support lead generation for this channel, we have a comprehensive direct mail and marketing program, including mass marketing and affinity strategies that target members of various organizations, such as travel, social and professional organizations. We also identify prospective customers through educational seminars, policyholder referrals and targeted promotions linked to our national advertising campaigns.

Accountants and personal financial advisers. We have more than 2,000 affiliated personal financial advisers, of whom approximately 1,700 are accountants, who sell our annuity and insurance products including variable products, third-party mutual funds and other investment products through our wholly-owned broker/dealers. In the past several years, accountants have been increasingly responsible for assisting their clients with long-term financial planning, as well as traditional accounting and tax-related services. As a result, accountants provide us with an opportunity for growth as a distribution channel. We primarily distribute annuities and other investment products through this channel.

Mortgage Insurance

We distribute our mortgage insurance products through our dedicated sales force of more than 100 employees located 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 our customer segments.

We also maintain a dedicated sales force that markets our mortgage insurance products to lenders in Canada, Australia, New Zealand, and Europe. 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.

Marketing

We promote and differentiate our products and services through breadth of offerings, technology services, specialized support for our distributors and innovative marketing programs tailored to particular consumer groups.

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We offer a breadth of products that meet the needs of consumers throughout the various stages of their lives. We refer to our approach to product diversity as “smart breadth” because 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 believe our reputation for innovation and our smart breadth of products enable us to sustain strong relationships with our distributors and position us to benefit from the current trend among distributors to reduce the number of insurers with whom they maintain relationships. We also have developed sophisticated

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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.

Since the completion of our IPO, we have customized our marketing approach to promote our new brand to key constituencies, including sales intermediaries, employees, investors and consumers. These programs include advertising on television shows and in trade and business periodicals that are likely to reach those demographic groups. We also seek to build recognition of our new brand and maintain strong 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.

In order to further meet the needs of our sales intermediaries, we also market our new brand and our products to key consumer groups through targeted marketing programs. For example, we sponsor the Genworth Center for Financial Learning, which provides a web site to promote financial literacy. We believe the website contributes to the recognition of our products and services and generates loyalty among independent sales intermediaries and consumers.

We also have been actively marketing our products and services to U.S. Latino customers, who we believe are substantially underserved by insurance and investment products, despite being the largest minority group in the U.S. As part of this campaign, we recruit Spanish-speaking agents, translate various marketing materials into Spanish, advertise our services on Spanish media and participate in Latin American cultural events. We operate a Spanish-language website devoted to financial education for U.S. Latinos. We also introduced our new emerging market web-based mortgage platform, TuCasaAhora.com, which was designed to help Latinos become homeowners. The product combines bilingual education, discounts, and incentives to support Latino first time homeownership.

Our branding strategy is to establish our new Genworth brand expeditiously while we continue to use the GE brand name and logo with customers. We have begun to transition some of our marketing and distribution activities to replace the GE brand name and monogram with our Genworth brand and logo. At the same time, we continue to use the GE brand name and monogram in marketing and distribution activities that we will replace with the Genworth brand in the future. Pursuant to a transitional trademark license agreement, GE granted us the right to use the GE mark and the GE monogram for up to five years following the IPO in connection with our products and services.

Risk Management

Overview

Risk management is a critical part of our business and we have adopted rigorous risk management processes in virtually every aspect of our operations, including product development, underwriting, investment management, asset-liability management and technology development projects. The primary objective of these risk management processes is to reduce the variations we experience from our expected results. We have an experienced group of more than 150 professionals, including actuaries, statisticians and other specialists, dedicated exclusively to our risk management process. We believe we have benefited from the sophisticated risk management techniques that GE applies throughout its businesses, and we have emphasized our adherence to those techniques as a competitive advantage in marketing and managing our products.

New product introductions

Our risk management process begins with the development and introduction of new products and services. We have established a rigorous product development process that specifies a series of required analyses, reviews and approvals for any new product. This process includes a review of the market opportunity and competitive

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landscape for each proposed product, major pricing assumptions and methodologies, return expectations, reinsurance strategies, underwriting criteria and business risks and potential mitigating factors. Before we introduce a new product in the market, 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 prompt corrective action when necessary. Significant product introductions require approval by our senior management team. We use a similarly rigorous process to introduce variations to existing products and to introduce existing products through new distribution channels.

Product performance reviews

Our Risk Committee includes our President and Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Investment Officer, Chief Actuary, and the Presidents of our three operating segments. The Risk Committee reviews each of the products in all our operating segments on a regular cycle, typically approximately twice per year. These reviews include an analysis of the major drivers of profitability, underwriting performance, variations from expected results, regulatory and competitive environment and other factors affecting product performance. In addition, we initiate special reviews when a product's performance fails to meet any of 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 Mortgage Insurance segment, we also review the profitability of lender accounts on a quarterly basis 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 progressive, competitive and consistent with our marketing and profitability objectives. We are also subject to periodic external audits by our reinsurers, which provide us with valuable insights into other innovative risk management practices.

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.

Portfolio diversification

We use limits to ensure a spread of risk in our business. We have strict limitations on credit risk to avoid concentration in our investment portfolio. Our product portfolios have considerable diversification due to the wide variety of products we have sold over a number of years. 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 OmniMarketSM 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

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claims with 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, our GENIUS® new business processing system uses digital underwriting technology that has lowered our operating costs and increased the speed, consistency and accuracy of our underwriting process by reducing decision-making variation. In our mortgage insurance business we use borrower credit scores, our proprietary mortgage scoring model, OmniScore®, and our extensive database of mortgage insurance experience to evaluate new products and portfolio performance. 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 OmniMarketSM 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.

Compliance

We take a disciplined approach to legal and regulatory compliance practices and throughout our company instill a strong commitment to integrity in business dealings and compliance with applicable laws and regulations. We have approximately 200 professionals dedicated to legal and regulatory compliance matters.

Operations and Technology

Service and support

We have a dedicated team of approximately 5,000 service and support personnel (including our operations through an arrangement with an outsourcing provider in India that is 40% owned by GE) who assist our sales intermediaries and customers with their service needs. We use advanced and, in some cases, proprietary, patent-pending technology to provide customer service and support, and we operate service centers that leverage technology, integrated processes, and Six Sigma process management techniques.

In our Protection and Retirement Income and Investments segments, 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 XML communications.

We also have introduced technologically advanced services to customers in our Mortgage Insurance segment. Historically, lenders submitted applications for mortgage insurance via mail, courier or fax. If we approved the loan, we would issue a certificate of insurance to the lender. Advances in technology now enable us to accept applications through electronic submission and to issue electronic insurance commitments and certificates.

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. We also assist in workouts through LMO Fast-Track, which we believe is the mortgage insurance industry's first on-line workout approval system, allowing lenders to request and obtain authorization from us for them to provide workout solutions to their borrowers. For the year ended December 31, 2004, we issued approximately 86% of our U.S. mortgage insurance commitments electronically, compared to 82% for the year ended December 31, 2003 and 78% for the year ended December 31, 2002.

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Operating centers

We have centralized our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. We expect to realize additional efficiencies from further facility rationalization, which includes centralizing additional U.S. operations and consolidating mailrooms and print centers. In addition, through an arrangement with an outsourcing provider that is 40% owned by GE, 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. Most of the personnel in India have college degrees, and many have graduate degrees.

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. We hold, or have applied for, more than 120 patents. 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 also work with associates from GE's Global Research Center to develop new technologies that help deliver competitive advantages to our company. We also may work in the future on new projects with the GE Global Research Center, other research organizations or academic institutions.

We believe we have greatly enhanced our operating efficiency and generated significant cost savings by using a variety of process tools, including a highly disciplined quality management and process optimization methodology known as Six Sigma which relies on the rigorous use of statistical techniques to assess process variations and defects. The program uses a disciplined methodology to define, measure, analyze, improve and control the features and performance of a company's products and processes. As part of our transition services agreement with GE, we will be able to continue to use the Six Sigma program as we have in the past, at no cost to us.

Reserves

We calculate and maintain reserves for estimated future benefit payments to our policyholders and contractholders in accordance with U.S. GAAP and industry accounting practices. We release these reserves as those future obligations are extinguished. The reserves we establish necessarily reflect estimates and actuarial assumptions with regard to our future experience. These estimates and actuarial assumptions involve the exercise of significant judgment. 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, 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.

Protection

We establish reserves for life insurance policies based upon generally recognized actuarial methods. We use mortality tables in general use in the U.S. and Europe, modified where appropriate, to reflect relevant historical experience and our underwriting practices. Persistency, expense and

interest rate assumptions are based upon relevant experience and expectations for future development. We establish reserves at amounts which, including the receipt of assumed additional premiums and interest assumed to be earned on the assets underlying the reserves, we expect to be sufficient to satisfy our policy obligations.

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The liability for policy benefits for universal life insurance policies and interest-sensitive whole life policies is equal to the balance that accrues to the benefit of policyholders, including credited interest, plus any amount needed to provide for additional benefits. We also establish reserves for amounts that we have deducted from the policyholder's balance to compensate us for services to be performed in future periods.

We establish reserves for long-term care insurance policies based upon factors including mortality, persistency, expenses, claim likelihood, benefit utilization levels, claim continuance, and any applicable coverage limitations. Long-term care insurance does not have the extensive historical claims experience of life insurance, and therefore, our ability to forecast future experience for long-term care insurance products is more limited than for life products.

Our reserves for unpaid group life and health insurance claims, including our medical and non-medical lines, are estimates of the ultimate net cost of both reported losses that have not yet been settled and incurred but as yet unreported losses. For reported claims, our reserves are based upon an evaluation of the claims, including anticipated run-out patterns, and include a provision for adverse claim development and fluctuation. Reserves for incurred but not reported claims are based upon historic incidence rates, severity rates, reporting delays and any known events which we believe will materially affect claim levels.

Reserves for long-term disability claims are based upon factors including recovery, mortality, expenses, Social Security and other benefit offsets, and investment income. They represent the actuarial present value of benefits and associated expenses for current claims, reported claims that have not yet completed the applicable elimination period and for covered disabilities that have been incurred but have not yet been reported. Claims on long-term disability insurance policies consist of payments to be made periodically, generally monthly, in accordance with the contractual terms of the policy.

We establish reserves for our payment protection insurance using a number of actuarial models. Claim reserves are calculated separately for disability, life and unemployment business. Reserves are established at three different stages of a claim: incurred but not reported, reported but not paid, and in the course of payment.

Retirement Income and Investments

For our investment contracts, including annuities, GICs, and funding agreements, contractholder liabilities are equal to the accumulated contract account values, which generally consist of an accumulation of deposit payments, less withdrawals, plus investment earnings and interest credited to the account, less expense, mortality, and profit charges, if applicable. We also maintain a separate reserve for any expected future payments in excess of the account value due to the potential death of the contractholder.

Reserves for future policy benefits on our immediate fixed annuity contracts are calculated based upon actuarial assumptions regarding the interest to be earned on the assets underlying the reserves and, if applicable, the annuitant's life expectancy.

Mortgage Insurance

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In our mortgage insurance businesses, a significant period of time may elapse between the occurrence of the borrower's default on a mortgage payment, which is the event triggering a potential future claim payment, the reporting of such default and our eventual payment of the claim. Consistent with U.S. GAAP and industry accounting practices, we establish reserves for loans that are in default, including loans that are in default but have not yet been reported, by forecasting the percentage of loans in default on which we will ultimately pay claims and the average claim that will be paid. We generally consider a loan to be in default if the borrower has failed to make a required mortgage payment for two consecutive months. In addition to our reserves for known loans in default, we establish reserves for loss adjustment expenses to provide for the estimated costs of settling claims, including legal and other fees, and general expenses of administering the claims settlement process.

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We estimate ultimate claims and associated costs based upon our historical loss experience, adjusted for the anticipated effect of current economic conditions and projected economic trends. Consistent with U.S. GAAP and industry accounting practices, we do not establish loss reserves for future claims on insured loans that are not currently in default.

To improve the reserve estimation process, we segregate our mortgage loan portfolio based upon a variety of factors, and we analyze each segment of the portfolio in light of our default experience to produce our reserve estimate. We review these factors on a periodic basis and adjust our loss reserves accordingly. Although inflation is implicitly included in the estimates, the impact of inflation is not explicitly isolated from other factors influencing the reserve estimates. We do not discount our loss reserves for financial reporting purposes.

We also establish liabilities related to contract underwriting indemnification. Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event that we make material errors in determining that loans processed by our contract underwriters meet specified underwriting or purchase criteria. We revise our estimates of these liabilities from time to time to reflect our recent experience.

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. 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 UFLIC, which resulted in a significant concentration of reinsurance risk with UFLIC.

The following table sets forth our exposure to our principal reinsurers, along with the reinsurance recoverable as of December 31, 2004, and the A.M. Best ratings of those reinsurers as of that date:

<u>(Dollar amounts in millions)</u>	Reinsurance	
	<u>recoverable</u>	<u>A.M. Best rating</u>
UFLIC(1)	\$ 16,179	A-
IDS Life Insurance Company(2)	746	A+
Phoenix Life Insurance Company(3)	618	A
Swiss Re Life & Health America Inc.	154	A+
Munich American Reassurance Company	96	A+
ERC(4)	92	A-
Revios Reinsurance	77	A-

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- (1) See note 10 to the financial statements included elsewhere in this prospectus.
 - (2) Our reinsurance arrangement with IDS covers a run-off block of single-premium life insurance policies.
 - (3) Our reinsurance arrangement with Phoenix covers a run-off block of corporate-owned life insurance policies. Both of these arrangements originated from acquisitions.
 - (4) ERC refers to Employers Reassurance Corporation (an indirect subsidiary of GE) and ERC Life Reinsurance Corporation (an indirect subsidiary of GE until December 2003).

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As discussed above under Mortgage Insurance Products and Services Risk mitigation arrangements Captive reinsurance, in the U.S., we have entered into a number of reinsurance agreements in which we share portions of our 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. As of December 31, 2004, our total mortgage insurance risk reinsured to all captive reinsurers was \$2.8 billion, and the total capital held in trust for our benefit by all captive reinsurers was \$528 million. These captive reinsurers are not rated, and their claims-paying obligations to us are limited to the amount of capital held in trust. We believe the capital held in trust by these captive reinsurers is sufficient to meet their anticipated obligations to us. However, we cannot ensure that each captive with which we do business can or will meet all its obligations to us.

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.

Our principal life insurance subsidiaries are rated by A.M. Best, S&P, Moody's and Fitch as follows:

<u>Company</u>	<u>A.M. Best rating</u>	<u>S&P rating</u>	<u>Moody's rating</u>	<u>Fitch rating</u>
American Mayflower Life Insurance				
Company of New York	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
Federal Home Life Insurance Company	A+ (Superior)	Not rated	Aa3 (Excellent)	AA- (Very Strong)
First Colony Life Insurance Company	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
GE Capital Life Assurance Company of New York	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
GE Life and Annuity Assurance Company	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
GE Group Life Assurance Company	A (Excellent)	AA- (Very Strong)	Not Rated	Not Rated
General Electric Capital Assurance Company	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)

Our mortgage insurance subsidiaries are rated by S&P, Moody's and Fitch as follows:

<u>Company(1)</u>	<u>S&P rating</u>	<u>Moody's rating</u>	<u>Fitch rating</u>
General Electric Mortgage Insurance Corporation	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)
GE Residential Mortgage Insurance Corporation of NC	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)
GE Mortgage Insurance Company Pty. Limited	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)
GE Mortgage Insurance Limited	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)

(1) Our Canadian mortgage insurance company is not rated by any of the rating agencies shown above.

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

A.M. Best states that its A+ (Superior) rating is assigned to those companies that have, in its opinion, a superior ability to meet their ongoing obligations to policyholders. The A+ (Superior) rating is the second-highest of fifteen ratings assigned by A.M. Best, which range from A++ to F.

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S&P states that an insurer rated AA (Very Strong) has very strong financial security characteristics that outweigh any vulnerabilities, and is highly likely to have the ability to meet financial commitments. The AA range is the second-highest of the four ratings ranges that meet these criteria, and also is the second-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 and AA- ratings are the third- and fourth-highest of S&P's 20 ratings categories.

Moody's states that insurance companies rated Aa (Excellent) offer excellent financial security. Moody's states that companies in this group constitute what are generally known as high-grade companies. The Aa range is the second-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 Aa2 and Aa3 ratings are the third- and fourth-highest of Moody's 21 ratings categories.

Fitch states that AA (Very Strong) rated insurance companies are viewed as possessing very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small. The AA rating category is the second-highest of eight financial strength rating categories, which range from AAA to D. 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 AA and AA- ratings are the third- and fourth-highest of Fitch's 24 ratings categories.

A.M. Best, S&P, Moody's and Fitch review their ratings periodically and we cannot assure you that we will maintain our current ratings in the future. Other agencies may also rate our company or our insurance subsidiaries on a solicited or an unsolicited basis.

Investments

As of December 31, 2004, we had total cash and invested assets of \$67.1 billion (including \$0.9 billion of restricted investments held by securitization entities) and an additional \$8.9 billion held in our separate accounts, for which we do not bear investment risk. We manage our assets to meet diversification, credit quality, yield and liquidity requirements of our policy and contract liabilities by investing primarily in fixed maturities, including government, municipal and corporate bonds, mortgage-backed and other asset-backed securities and mortgage loans on commercial real estate. We also invest in short-term securities and other investments, including a small position in equity securities. In all cases, investments for our particular insurance company subsidiaries are required to comply with restrictions imposed by applicable laws and insurance regulatory authorities.

Our primary investment objective is to meet our obligations to policyholders and contractholders while increasing value to our stockholders by investing in a diversified portfolio of high-quality, income producing securities and other assets. Our investment strategy seeks to optimize investment income without relying on realized investment gains. Our investment strategy focuses primarily on:

minimizing interest rate risk through rigorous management of asset durations relative to policyholder and contractholder obligations;

selecting assets based on fundamental, research-driven strategies;

emphasizing fixed-interest, low-volatility assets;

maintaining sufficient liquidity to meet unexpected financial obligations;

continuously evaluating our asset class mix and pursuing additional investment classes; and

rigorous, continuous monitoring of asset quality.

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We are exposed to two primary sources of investment risk:

credit risk, relating to the uncertainty associated with the continued ability of a given issuer to make timely payments of principal and interest; and

interest rate risk, relating to the market price and cash flow variability associated with changes in market interest rates.

We manage credit risk by analyzing issuers, transaction structures and real estate properties. We use sophisticated analytic techniques to monitor credit risk. For example, we continually measure the probability of credit default and estimated loss in the event of such a default, which provides us with early notification of worsening credits. If an issuer downgrade causes our holdings of that issuer to exceed our risk thresholds, we automatically undertake a detailed review of the issuer's credit. We also manage credit risk through industry and issuer diversification and asset allocation practices. For commercial real estate loans, we manage credit risk through geographic, property type and product type diversification and asset allocation. We routinely review different issuers and sectors and conduct more formal quarterly portfolio reviews with our Investment Committee.

We mitigate interest rate risk through rigorous management of the relationship between the duration of our assets and the duration of our liabilities, seeking to minimize risk of loss in both rising and falling interest rate environments. For further information on our management of interest rate risk, see Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

The following table sets forth our cash, cash equivalents and invested assets as of the dates indicated:

(Dollar amounts in millions)	December 31,			
	2004		2003	
	Carrying value	% of total	Carrying value	% of total
Fixed-maturities, available-for-sale				
Public	\$ 40,150	60%	\$ 51,336	64%
Private	12,274	18%	14,149	18%
Mortgage loans	6,051	9%	6,114	8%
Other investments	3,996	6%	3,789	4%
Policy loans	1,224	2%	1,105	1%
Restricted investments held by securitization entities	860	1%	1,069	1%
Equity securities, available for sale	374	1%	600	1%
Cash, cash equivalents and short-term investments	2,210	3%	2,513	