



Dear Reader

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Finally the long and cold winter is behind us and the days are getting lighter and longer. A lot of things are taking place in the Nordic markets at the moment, which are both interesting and challenging for everybody involved. Recently we launched mortgage insurance in Finland and we are very happy to announce that we are now doing business with Nordea Finland.

In this issue of our Nordic Quarterly Bulletin you can take a closer look at a new Nordic market that we have not covered before - The Finnish market. We are presenting both macro economic data as well as detailed information about the Housing and Mortgage market.

The first article describes in broad terms how the Finnish mortgage market has developed, from the recession in the early 90's until today. We shed some light on specific characteristic of the market, with a comparison of how things have changed with the availability of new tools and how this fits into the new Basel II regulation, which is soon to come.

In our second article we would like to share with you a phenomenon that is quite common in many countries in Europe, except for the Nordic countries, Mortgage Brokers. Mortgage brokerage has only started in Sweden but it is worth exploring further as it could potentially become a new distribution channel for the other players in the region. Despite leading to increased competition it will also provide additional options for the end consumer.

Housing Market Analysis – Highlights

Once again we bring you detailed analysis of economic and housing factors impacting financial institutions and in particular mortgage lenders in Sweden, Denmark and Finland. Here are the highlights of the housing market analysis, a more detailed analysis can be found on page 7 onwards.

The house prices in Sweden have continued to rise steadily in spite of the interest rate increase from the Riksbank. The last quarter trend indicates the growth is even higher than it was in 2005, especially in the bigger city areas.

As in Sweden, Danish house prices are increasing, especially in the Copenhagen area, where we have seen a growth of more than 10% during the first quarter 2006.

The Finnish housing market has seen prices increasing by approximately 9% during 2005, with increases in Helsinki being slightly greater. The increase is expected to slow down during 2006 due to higher interest rates and is forecasted to grow at 3-5%.

The key interest rate was increased in Sweden as well as in Denmark and Finland. The forecast for 2006 predicts a further increase in all three markets.

The Swedish economy is currently in a strong growing phase and is forecasted to continue to grow for the next two years due to the weak Krona and high global demand. The Finnish economy has also seen a high steady growth during the last 3-4 years and after a slightly lower increase in 2005 the forecasted growth for 2006 is 3,5%. The growth in the Danish economy is expected to end up at 2,4% for the full year of 2006.

Claes Billing

Managing Director, Nordic
Genworth Financial
Mortgage Insurance – Europe

DEVELOPMENTS IN THE FINNISH MORTGAGE MARKET

House prices in Finland have been on an upward trend since the early 1990's. The main reasons for the rises are well documented:

- 1) The decrease in interest rates as the Finnish Mark was replaced with the Euro
- 2) The decrease in mortgage margins as price competition has increased
- 3) The lengthening of mortgage maturities from 10-15 years to +25 years, allowing monthly mortgage payments to be more affordable
- 4) Introduction of the State Guarantee System allowing borrowers to borrow up to 85% of a property's value

These factors have combined with the effect that prices in the metropolitan areas in Finland have doubled in the last 10 years. This has benefited existing homeowners, but first time buyers during this period have found that they need to borrow an ever-increasing amount of a property's value. This resultant increase in Loan-to-Value ratios (LTV's) lent by banks has, prima facie, increased the amount of risk that Finnish lenders are exposed to on their mortgage portfolios. Finnish banks have sought to mitigate this risk in a number of ways:

- 1) Each loan is underwritten on the basis of a prudent and detailed affordability calculation that strives to capture a comprehensive picture of a borrower's financial circumstances
- 2) The use of a State Guarantee that promises to compensate a lender for any losses it may occur on mortgages between the LTV ranges of 75-85%
- 3) The use of 3rd party guarantees that seek to cover the obligations of those borrowers who wish or need to borrow over 85% of a property's value

Certainly, it is clear that the first of the three mitigants is an eminently sensible way of examining and evaluating a mortgage loan application, and as the Basel II accord draws ever closer to implementation, we are

beginning to see similar affordability calculations being increasingly used by lenders across Europe.

The second mitigant, the State Guarantee, has proved a successful tool for extending mortgages in Finland to the 85% LTV level, whilst also reducing the level of credit risk that are exposed to the banks. However, in comparison with other European countries like the UK, the Netherlands, Denmark and Sweden, the down payment required from borrowers is still significant and acts as a high barrier to home ownership for first time buyers and to mobility within the housing and labour markets.

To obtain a mortgage greater than 85% LTV in Finland, then a prospective borrower must supply the third mitigant mentioned above: a personal guarantee. Such a guarantee may take the form a pledge of assets towards repayment of a debt, should a borrower default on that debt. The guarantor in a residential mortgage transaction does not charge a fee, which usually reduces the range of willing guarantors to family members, who are also seen as safer or more willing to guarantee the debt incurred.

A problem with the reliability of personal guarantees is that although initial inquiries are made regarding the guarantor's ability to pay, very few lenders have processes to ensure that guarantors remain creditworthy on the particular guaranteed obligation. Thus, for example, little prevents a guarantor from "pledging" his assets against multiple obligations. Furthermore, for those borrowers seeking a loan greater than 85% LTV the State Guarantee must be combined with a personal guarantee. Understandably with both these guarantees acting as supports at various levels of collateral, the mortgage application and approval process can become burdensome for both borrower and lender.



So what are the alternatives for Finnish borrowers and lenders to the current guarantee system?

Private Mortgage Insurance has recently been introduced to Finland as a mechanism that allows borrowers to gain simple access to high LTV loans and removes the need for personal guarantees that may put the assets of family members at risk. Genworth Financial Mortgage Insurance has built a product with a Finnish lender that replaces the need for customers to supply personal guarantees. By designing an insurance product with actuarially determined pricing and a rigorous risk policy, borrowers in Finland can now capitalize a small premium into their loan amount at the point of loan application. This will enable the borrower to get access to loans in excess of 75% LTV without the need to obtain additional guarantees.

The benefits of this to the borrower and lender are clear. The borrower gets access to a high LTV loan without the trouble or worry over additional guarantees and the bank benefits because it has replaced a complicated multiple guarantee system with a single highly rated financial partner to support the collateral of its mortgage portfolio.

Mortgage Insurance can also benefit lenders out with the “customer-winning” first stage of the mortgage business. As Basel II draws nearer and banks become more sophisticated in the areas of credit scoring and risk measurement, Mortgage Insurance from rated counter-parties has been recognized a credit risk mitigant by the European Parliament under the Credit Risk Directive (CRD). This means that lenders can benefit from holding less capital against loans that are covered by mortgage insurance, something that would not be possible with un-rated personal guarantees. Within a capital markets context also, as lenders increasingly use Covered Bonds or Retail Mortgage Backed Securities (RMBS) to fund their mortgage assets, Mortgage Insurance is recognized by regulators, rating agents and investors as form of credit enhancement that can improve the economics of these transactions.

Genworth Financial Mortgage Insurance has an established business across many countries in Europe where we aim to help borrowers gain access to high LTV loans whilst simultaneously protecting investors against increases in credit risk. Our mortgage insurance has already proved extremely successful in replacing a Personal Guarantee system with our rated protection in Spain, Portugal and Italy to the satisfaction of both borrowers and lenders. We fully expect our experience in Finland to be the same.

MORTGAGE BROKERS – FUTURE ROLE IN THE SWEDISH MARKET?

A mortgage broker acts as an intermediary who sources mortgages on behalf of individuals or businesses. Traditionally in many mortgage markets, banks and lending institutions have distributed their own mortgage products. But as the market for mortgages has become more competitive, mortgage brokers have become more popular. Today, in developed mortgage markets in Europe brokers are playing a larger role in the distribution of mortgage products for lenders.

Recently in Sweden, mortgage comparison companies have emerged. These companies provide borrowers with prices and conditions for entry into the market. Most of these companies also provide prices for all kind of consumer goods and services, offering an impartial service with no connection to any particular lender or organisation. These types of services could be seen as forerunners to full brokerage services in the Swedish mortgage market.

Why use a mortgage broker?

To consumers, due to their infrequent purchases of mortgage products, the mortgage market may appear confusing. A mortgage broker can guide them through the process of selecting a suitable mortgage and offer mortgage and property related financial advice. For borrowers, particularly in Sweden, with poor credit records or other unusual circumstances it may be difficult to find a lender willing to offer them a mortgage. It could therefore be necessary for such borrowers to consult mortgage brokers as they will have the specialised knowledge required.

Tasks of mortgage brokers

The tasks undertaken by mortgage brokers will depend on the depth of their service and liabilities. The following tasks could typically be undertaken:

- Assessing the borrowers circumstances, e.g., assessment of credit history and affordability
- Search the market to find a mortgage product that fits the client's needs
- Applying for a lenders agreement in principle (pre-approval)
- Gathering all needed documents
- Completing a lender application form
- Explaining the legal disclosures

Mortgage brokerage in UK

Since October 2004 individuals and firms offering mortgage advice in the UK must be authorised and regulated by the Financial Services Authority (FSA)¹. The scope of a mortgage broker's activities varies between countries. In the UK anyone offering mortgage brokerage is offering a regulated financial activity; the broker is responsible for ensuring the advice is appropriate for the borrower's circumstances and is held financially liable if the advice is later shown to be defective. In other countries the transaction undertaken by the broker may be limited to pointing the borrower in the direction of an appropriate lender with no further financial advice given.

In general, mortgage brokers should disclose which lenders they use and how much lenders pay them for arranging mortgages. There are four types of advisers: **tied advisers** who are working for one financial institution and usually employed by this particular institution, **multi-tied advisers** who are paid by more than one financial institution, **whole of market advisers**, who work with all companies but only on a commission basis and **independent financial advisers**. Independent financial advisers must offer their clients the option to pay for advice by fee rather than commission. Generally, the independent financial advisers take a fee from their client and have commission from the financial institution as well.

MORTGAGE BROKERS – FUTURE ROLE IN THE SWEDISH MARKET? (CONTINUED)



Sweden

Mortgage Brokerage may have a different role to play in Sweden. Firstly, people move house less often in Sweden so the need for these kind of services is not as great. Secondly, there are only around half a dozen mortgage institutes in Sweden compared to several hundreds in the UK, making the job of mortgage selection much less onerous on Swedish borrowers. However, as the Swedish mortgage market develops, and the market for “credit impaired” borrowers slowly opens up, brokers may begin to play an increasing role in providing financial advice across a full range of a customer’s financial requirement, with mortgage selection playing a large part of an individual’s financial commitments.

Regulations

According to Finansinspektionen (FI), companies who act as intermediaries of credits are not bound to any permission. But there is a law that states that companies have a duty to report financial business to FI (Lagen om anmälningsplikt avseende viss finansiell verksamhet) if they run a professional financial business and as their main occupation.

Different Players in the Market

Currently there are only a few mortgage brokers in Sweden. Freedom Finance Kreditservice AB is the biggest mortgage intermediary in Sweden. The company started in 1999 under the name Bolåneservice AB, in 2003 they changed their name and is now owned by Freedom Finance Group. Freedom Finance Plc is one of the biggest mortgage brokers in the UK. Freedom Finance is independent from lenders and distributes mortgages to most of the lenders and mortgage institutions in Sweden. Independent mortgage brokerage is not common at all in Sweden, but some of the smaller banks have exclusive partnership with the bigger mortgage institutions, e.g. Ikano and ICA bank is a broker to SBAB, and a huge part of the independent savings banks use Spintab as their mortgage partner. The pension and

investment consultancy firm, Söderberg & Partners is another example of a tied mortgage broker as they have recently signed an exclusive agreement with SEB. Söderberg & Partners will now distribute traditional bank products such as mortgages and other credits to SEB².

As mentioned previously, as things currently stand in the Swedish market it is more common for a consumer when it comes to mortgages (if they do not turn directly to the lender) to visit comparison based websites like Comboloan, Pricerunner or Compricer. These companies do not really intermediate mortgages, but rather gather information from banks and mortgage institutions and serve the customer with this information free of charge.

Comboloan is the only comparison website that specialises solely in mortgages. They are independent from all lenders and intermediate loans to most of the lenders in the market. Their largest individual owner is IDG Sweden. IDG is the world’s largest publisher of IT-related information. We have interviewed **Fredrik Strand**, CEO of Comboloan:

Interview with Fredrik Strand, CEO of Comboloan

Q1 What do Comboloan offer borrowers?

A1 To make them feel safer in their choice of mortgage, both regarding the interest rate and the conditions in general. Practically it means that we offer an interactive comparison of most lenders in Sweden. You enter your criteria and receive a list of matching lenders. You will find out at once which lender that is the most favourable. Nevertheless, many banks are willing to reduce the interest rate if the customers negotiate with them. Therefore, we offer a possibility of searching on postal codes where you can see what interest rates others have been given after such a negotiation.

Q2 Do you offer any other products?

A2 No, but we have advertisements for other products such as unsecured loans.

MORTGAGE BROKERS – FUTURE ROLE IN THE SWEDISH MARKET? (CONTINUED)

Q3 Why do you think that the share of mortgages sold by banks in Sweden is so big compared to e.g. United Kingdom?

A3 Partly, this is due to the fact that it takes a long time to work up a new concept, and the banks are not known for being the most radical innovators. And partly, the consumers are not used to the idea of using a mortgage broker and might think that it will be more expensive with an intermediary - even though the opposite is often the case.

Q4 What is needed to become a mortgage broker in Sweden?

A4 We are not a broker in the traditional sense. We offer information and thereafter the visitors decide by themselves if they want to click further and send an application directly to a certain lender.

Q5 Can you guarantee that the customer will receive exactly the same offer from you as he/she can get from the bank?

A5 Seen from the district, loan to value and additional parameters we can show you which bank is the cheapest for you. After that we make sure that you are better informed about what interest rates other have had and which argument to use in an eventual negotiation. Thereby you should have a lower interest rate by using our website.

Q6 Do you think that you would be favoured or not if more mortgage brokers will appear on the market?

A6 It will favour us in the long term. The banks will be forced to accept the concept and will hopefully develop more products that are tailored to fit certain customer segments. More brokers will also make customers receive more information and acclimate to the idea.

Q7 Who are your main competitors?

A7 One category is the more general price comparison websites who now have started to compare mortgages. It is possible that they will have their share on the market but I think that a mortgage is a too important part of people's economy for them to be satisfied with this kind

of simplified solution. Another category is companies who intermediate loans to one or two different banks. They will do some of the job that the bank advisers normally do, but are limited by the low number of banks that they currently work with in Sweden.

Q8 What segment of mortgage customers comes to you?

A8 The absolute largest customer segment is people who are living in the big cities and who are experienced in using the Internet when searching for information. The average age is 30-50 years and they have wages above average. Then there is also a smaller segment who have had problems to get a loan and who are looking for alternatives.

Q9 When do the customers come to you, by purchase or re-mortgage?

A9 Both, but as we co-operate mostly with parties that reach house buyers we have most of our customers within this segment.

Q10 Your service is free of charge. Can you describe your business model?

A10 We offer a good website with a clear focus – mortgages. Visitors like it and keep on using it, and then you get attention from the advertisers.

Q11 How many percent of the mortgage loans do you think will be sold through mortgage brokers in the future?

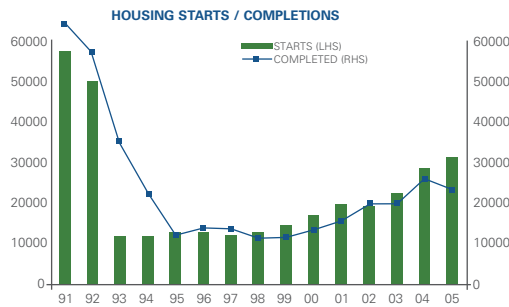
A11 Certainly more than today. It all depends on the banks' capacity to develop niche products. There are a lot of possibilities to do that here in Sweden compared to other markets like the UK and the Netherlands.

Q12 What do you think about the future for Comboloan, do you have an expansion plans?

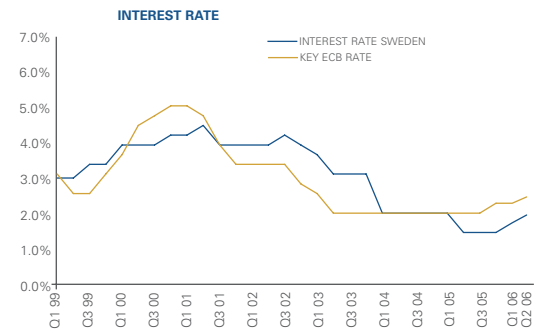
A12 This year we are investing a lot in developing the functions and tools on the website. We will also catch on to new products that could be of help for our visitors depending on their current situation. And about the latter, we are always open to good proposals.



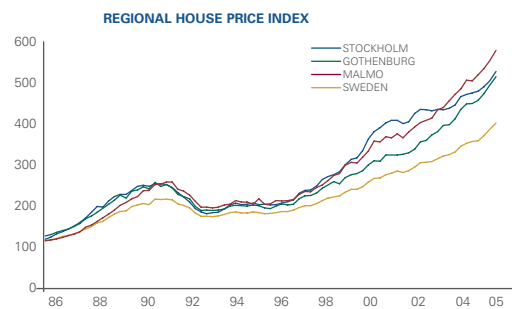
HOUSING AND MORTGAGE MARKET SWEDEN



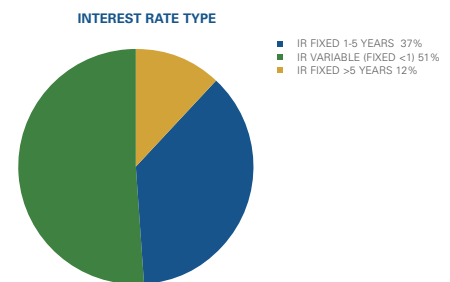
Source: SCB



Source: Riksbank / ECB



Source: SCB



Source: The Swedish Bankers' Association

Starts and Completions

Housing starts in Sweden had a really good year in 2005 and increased from 28,350 in 2004 to 31,100 in 2005. This higher rate of starts is a result of the high demand for new properties and a good sign for the Swedish economy. This trend is forecasted to continue during 2006 and 2007.

The completion data for the construction year of 2005 was a little bit lower than anticipated, 23,068 completions. But as we have seen two consecutive years with many construction starts we can expect to see a higher figure for 2006.

House Price Index

The house prices in Sweden has continued to rise steadily in spite of the interest rate increase from the Riksbank with a total 0,5% in early spring. The last quarter trend shows growth being even higher than in 2005 when lower interest rates existed, especially in the bigger city areas where the demand is still very high.

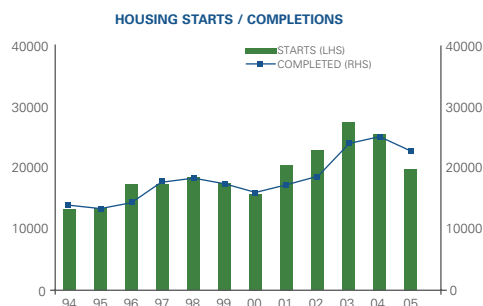
Interest Rate

The Riksbank increased the Repo rate twice during the first quarter with a total of 0.5%. The reason for this increase was partly due to internal concerns around the growing house prices and increasing indebtedness ratio, and we conclude that the result of the increase has not been favourable. With this conclusion in mind and the fact that the economy is still going strong, an increase is expected to come in a near future.

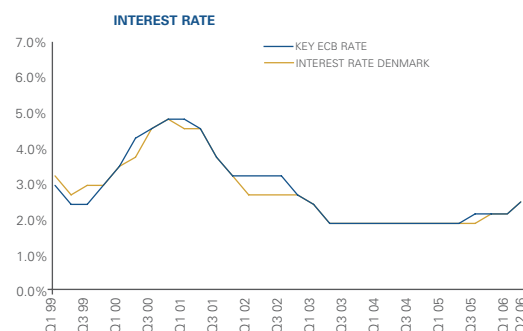
Interest Rate Type

The data for the preferred interest rate type for 2005 in Sweden shows us in hand that the forecasted increase of the interest did not result in more mortgage borrowers turning to fixed interest rates. The flexible interest rate still attracts more than half of all mortgage borrowers in the Swedish market.

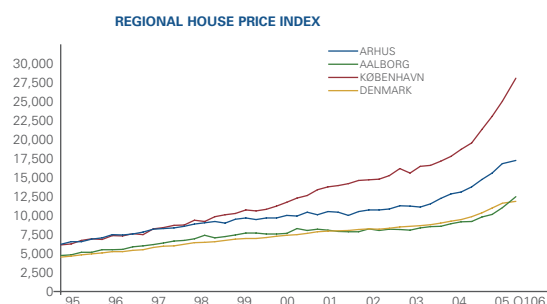
HOUSING AND MORTGAGE MARKET DENMARK



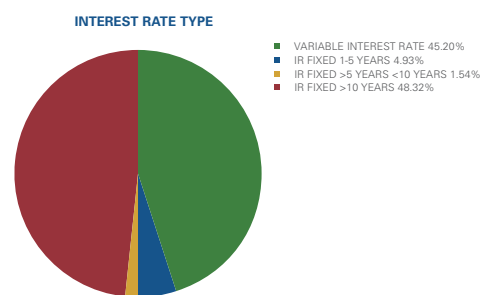
Source: Danmarks Statistik



Source: Danmarks Nationalbank / ECB



Source: Realkreditrådet



Source: Danmarks Nationalbank

Starts and Completions

Housing starts in Denmark saw a dramatic drop in 2005 where only 19,973 new starts were registered compared to 26,800 in 2004. This trend is partly accounted for by the lack of good building sites close to the metropolitan areas.

Housing completion also experienced a declining trend last year where it dropped to 22,936 new completions from 26,513 the year before. As the starts also dropped in 2005 this trend will with all certainty continue throughout 2006.

House Price Index

The house prices in Denmark are still experiencing a very strong growth, especially in Copenhagen. Under the first quarter we have seen that the trend from last year (+33%) is still going strong with a growth of more than 10%. The other regions are not as explosive but still increasing at a steady pace.

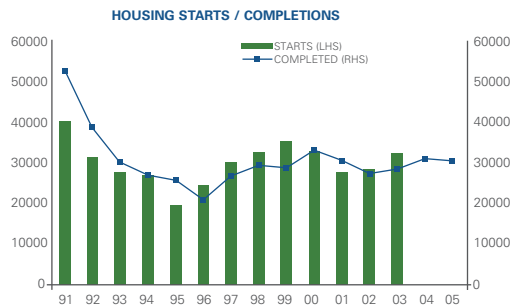
Interest Rate

The Danish National bank increased the key interest rate further by 0,25% this spring as forecasted and as a result of the ECB key interest rate increase. The expectation is that both ECB and the Danish National bank will increase the key interest rate by at least 0,25% but more likely by 0,5% before the end of 2006.

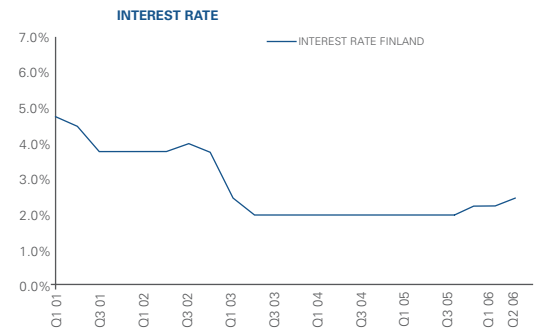
Interest Rate Type

Danish borrowers are still evenly divided between flexible interest rates and fixed interest with a typical duration of more than 10 years. This trend has been crystallizing over the last few years and is now showing stable figures although the interest rates have been increasing.

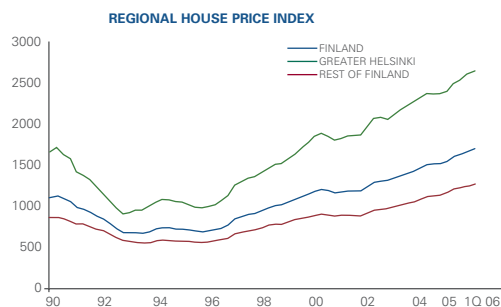
HOUSING AND MORTGAGE MARKET FINLAND



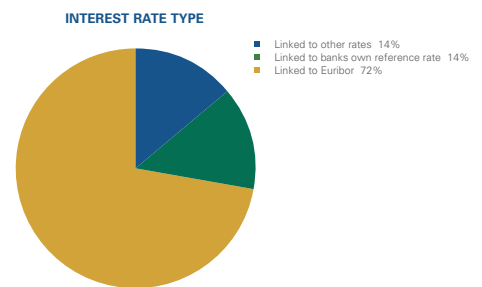
Source: Statistics Finland



Source: Bank of Finland / ECB



Source: Statistics Finland



Source: Bank of Finland

Starts and Completions

The housing starts in Finland have been at a stable high level during a number of consecutive years and they are expected to remain at this level, as the demand is still strong. The completions ratio was more or less unchanged during 2005, 30,441 (2004: 30,662) and the forecast is that 2006 will see a slight increase of this completions level.

House Price Index

The Finnish house prices increased with approximately 9% in the overall market during 2005, and in Helsinki the increase was slightly more with a total yearly increase of 9,7%. This increase is expected to slow down during 2006 due to higher interest rates and is forecasted to grow with 3-5%.

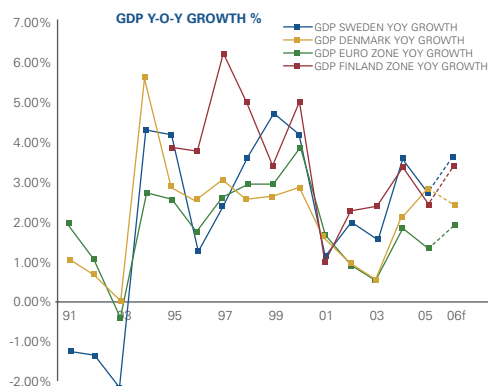
Interest Rate

The bank of Finland is tightly connected to the ECB as they are in the Euro monetary system and therefore fall under their jurisdiction. The key interest rate was increased by 0,25% in December and then by a further 0,25% in March. The forecast is that the increase will continue throughout 2006 by a further 0,5%.

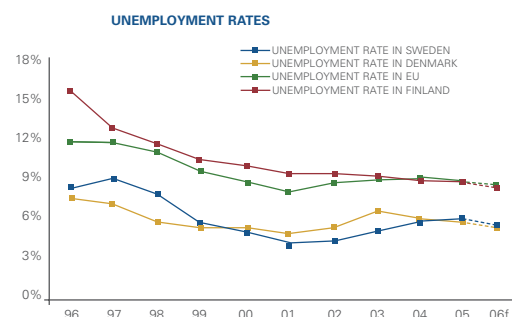
Interest Rate Type

The 12-month Euribor is the preferred interest rate type in Finland and approximately 72% of the mortgage borrowers have an underlying 12-month Euribor on their mortgage loan.

MACRO ECONOMIC INDICATORS



Source: Konjunkturinstitutet, Finansministeriet



Source: SCB / Statbank / Statistics Finland

GDP

The Swedish economy is currently in a strong growing phase, +2,7% in 2005, and is forecasted to continue to be so for the next two years due to the weak Krona and a high global demand. The forecast is a growth of 3,7% in 2006.

The Danish economy experienced a very good 2005 with a growth of total 2,8% and this positive trend has continued into 2006 but at a slightly slower pace. The growth is expected to end up at 2,4% for the full year of 2006.

The Finnish economy has seen a high steady growth the last 3-4 years and after a slightly lower increase (+2,5%) in 2005, with forecasted growth for 2006 at 3,5%.

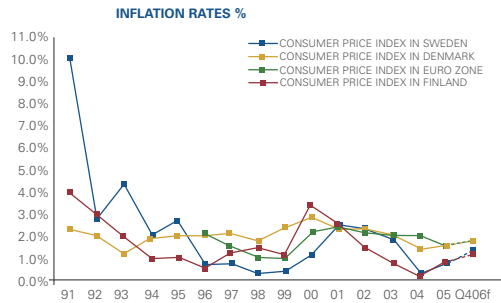
Unemployment

The Swedish unemployment rate is slowly declining from the 5,9% peak at the end of 2005. The growing economy has led to increased demand for workers and the forecast is that the rate will continue to decline to approximately 5,2% at by the end of 2006.

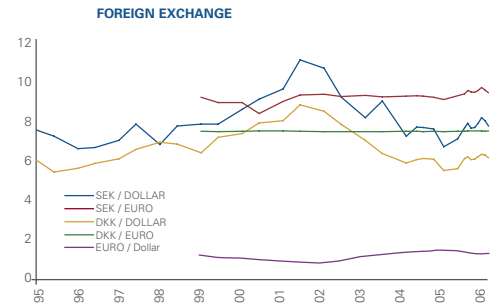
The Danish unemployment rate continues its declining trend from the 5,5% level turning into 2006 and it will proceed during 2006. The forecast is that the rate will be at 4,9% by the end of 2006.

Unemployment rates for Finland have over the last 5 years been steadily declining and this is forecasted to continue but at an expected slower pace, with a forecast of 8,0% for the unemployment rate by the end of 2006.

MACRO ECONOMIC INDICATORS (CONTINUED)



Source: Riksbank / Finansministeriet / Statistics Finland



Source: Riksbank / Nationalbanken / Bank of Finland

Inflation

The Inflation rate in Sweden has continued to rise for the first 4 months of 2006 and is currently at a 1,5% level. This has partly been a result of wages increasing more than the consumer products in the Swedish market. The forecast is that the rate will be more stable for the second half of 2006 and will remain at a 1,5% level.

The Inflation increase in Denmark has continued into 2006 but is forecasted to increase in a slower pace than during 2005. The imported inflation and energy prices will push the inflation up to approximately 2,0% by the end of 2006.

The Finnish inflation rate is expected to continue to climb partly due to higher public purchase power from the consumer and the forecast is that we will see a 1,2% inflation rate at the end of 2006.

Exchange Rate

The Swedish exchange rates has this spring been relatively stable which has boosted the economy further, but the rates will probably start climbing as the interest rates continue to rise.

The Danish Krona exchange rate has been stable for the last couple of months as most of the European monetary systems in Denmark are closely connected to EU economy.

Finland has the Euro as currency and the exchange rate of the Euro has been stable this spring after a declining trend to the Dollar during the autumn of 2005.

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PREDICT THE WINNER - WIN A DINNER!

2006 Football World Cup Contest

Predict the winner of the Football World Cup 2006 and get the chance to win a dinner for two valued at 120 EUR.

Send in your competition entry stating which country you think will win the 2006 World cup, together with a short description of your "dream dinner" (maximum 20 words) **before 24th June 2006** to: info.se@genworth.com The person who provides the most innovative description of their dream dinner together with the correct winner of the world cup will win the 'dream dinner' prize! The winner will receive a gift voucher which can be redeemed in a choice of restaurants in Stockholm, Copenhagen or Helsinki. Don't forget to include your contact information in the email, including address and contact telephone number.

The winner will be selected by a jury consisting of Johan Lundberg, Tomas Lundmark and Cecilia Borgström. The jury will inform the winner by telephone and the winner will be announced in the next issue of the Nordic Bulletin.

Good Luck and our best wishes for a nice and relaxing summer holiday!

FORTHCOMING EVENTS

October 2006 – Genworth Financial Credit Risk Seminar in Stockholm

Who Should Attend? CEOs, CFOs and Credit Risk Managers from Lending institutions
To pre-register your interest in this event, please e-mail: cecilia.borgstrom@genworth.com

Back issues of this bulletin can be found on the Genworth Financial website,
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ABOUT GENWORTH FINANCIAL IN EUROPE

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