

GENWORTH FINANCIAL INC
Form 10-Q
October 31, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

80-0873306
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

6620 West Broad Street

Richmond, Virginia
(Address of Principal Executive Offices)

23230
(Zip Code)

(804) 281-6000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 23, 2018, 500,757,037 shares of Class A Common Stock, par value \$0.001 per share, were outstanding.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>PART I FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 (Unaudited) and December 31, 2017</u>	3
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2018 and 2017 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	90
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	174
Item 4. <u>Controls and Procedures</u>	174
<u>PART II OTHER INFORMATION</u>	175
Item 1. <u>Legal Proceedings</u>	175
Item 1A. <u>Risk Factors</u>	175
Item 6. <u>Exhibits</u>	175
<u>Signatures</u>	176

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Amounts in millions, except per share amounts)**

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 59,404	\$ 62,525
Equity securities, at fair value	783	820
Commercial mortgage loans	6,568	6,341
Restricted commercial mortgage loans related to securitization entities	87	107
Policy loans	1,859	1,786
Other invested assets	1,354	1,813
Total investments	70,055	73,392
Cash, cash equivalents and restricted cash	2,505	2,875
Accrued investment income	657	644
Deferred acquisition costs	3,336	2,329
Intangible assets and goodwill	355	301
Reinsurance recoverable	17,351	17,569
Other assets	467	453
Deferred tax asset	650	504
Separate account assets	6,745	7,230
Total assets	\$ 102,121	\$ 105,297
Liabilities and equity		
Liabilities:		
Future policy benefits	\$ 38,018	\$ 38,472
Policyholder account balances	22,993	24,195
Liability for policy and contract claims	9,844	9,594
Unearned premiums	3,668	3,967
Other liabilities	1,830	1,910
Borrowings related to securitization entities	20	40
Non-recourse funding obligations	310	310
Long-term borrowings	4,051	4,224
Deferred tax liability	21	27

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Separate account liabilities	6,745	7,230
Total liabilities	87,500	89,969
Commitments and contingencies		
Equity:		
Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 589 million and 588 million shares issued as of September 30, 2018 and December 31, 2017, respectively; 501 million and 499 million shares outstanding as of September 30, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	11,983	11,977
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	598	1,075
Net unrealized gains (losses) on other-than-temporarily impaired securities	10	10
Net unrealized investment gains (losses)	608	1,085
Derivatives qualifying as hedges	1,717	2,065
Foreign currency translation and other adjustments	(258)	(123)
Total accumulated other comprehensive income (loss)	2,067	3,027
Retained earnings	1,447	1,113
Treasury stock, at cost (88 million shares as of September 30, 2018 and December 31, 2017)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,798	13,418
Noncontrolling interests	1,823	1,910
Total equity	14,621	15,328
Total liabilities and equity	\$ 102,121	\$ 105,297

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Amounts in millions, except per share amounts)****(Unaudited)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:				
Premiums	\$ 1,122	\$ 1,135	\$ 3,398	\$ 3,382
Net investment income	815	797	2,447	2,388
Net investment gains (losses)	13	85	(32)	220
Policy fees and other income	193	198	604	619
Total revenues	2,143	2,215	6,417	6,609
Benefits and expenses:				
Benefits and other changes in policy reserves	1,321	1,344	3,837	3,796
Interest credited	151	164	459	494
Acquisition and operating expenses, net of deferrals	243	265	736	775
Amortization of deferred acquisition costs and intangibles	83	83	299	316
Interest expense	72	73	225	209
Total benefits and expenses	1,870	1,929	5,556	5,590
Income from continuing operations before income taxes	273	286	861	1,019
Provision for income taxes	63	102	237	348
Income from continuing operations	210	184	624	671
Loss from discontinued operations, net of taxes		(9)		(9)
Net income	210	175	624	662
Less: net income attributable to noncontrolling interests	64	68	176	198
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 146	\$ 107	\$ 448	\$ 464
Income from continuing operations available to Genworth Financial, Inc.'s common stockholders per share:				
Basic	\$ 0.29	\$ 0.23	\$ 0.89	\$ 0.95
Diluted	\$ 0.29	\$ 0.23	\$ 0.89	\$ 0.94

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Net income available to Genworth Financial, Inc.'s common stockholders per share:

Basic	\$ 0.29	\$ 0.21	\$ 0.89	\$ 0.93
-------	---------	---------	---------	---------

Diluted	\$ 0.29	\$ 0.21	\$ 0.89	\$ 0.93
---------	---------	---------	---------	---------

Weighted-average common shares outstanding:

Basic	500.7	499.1	500.3	498.9
-------	-------	-------	-------	-------

Diluted	503.3	501.6	502.9	501.2
---------	-------	-------	-------	-------

Supplemental disclosures:

Total other-than-temporary impairments	\$	\$ (1)	\$	\$ (4)
--	----	--------	----	--------

Portion of other-than-temporary impairments included in other comprehensive income (loss)

Net other-than-temporary impairments		(1)		(4)
--------------------------------------	--	-----	--	-----

Other investments gains (losses)	13	86	(32)	224
----------------------------------	----	----	------	-----

Total net investment gains (losses)	\$ 13	\$ 85	\$ (32)	\$ 220
-------------------------------------	-------	-------	---------	--------

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in millions)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 210	\$ 175	\$ 624	\$ 662
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(134)	(89)	(660)	(173)
Net unrealized gains (losses) on other-than-temporarily impaired securities			(2)	1
Derivatives qualifying as hedges	(146)	(12)	(362)	(33)
Foreign currency translation and other adjustments	20	81	(165)	261
Total other comprehensive income (loss)	(260)	(20)	(1,189)	56
Total comprehensive income (loss)	(50)	155	(565)	718
Less: comprehensive income attributable to noncontrolling interests	64	108	78	313
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	\$ (114)	\$ 47	\$ (643)	\$ 405

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc.'s stockholder equity	Noncontrolling interests	Total equity
Balances as of December 31, 2017	\$ 1	\$ 11,977	\$ 3,027	\$ 1,113	\$ (2,700)	\$ 13,418	\$ 1,910	\$ 15,328
Cumulative effect of change in accounting, net of taxes			131	(114)		17		17
Repurchase of subsidiary shares							(89)	(89)
Comprehensive income (loss):								
Net income				448		448	176	624
Other comprehensive loss, net of taxes			(1,091)			(1,091)	(98)	(1,189)
Total comprehensive income (loss)						(643)	78	(565)
Dividends to noncontrolling interests							(83)	(83)
Stock-based compensation expense and exercises and other		6				6	7	13
Balances as of September 30, 2018	\$ 1	\$ 11,983	\$ 2,067	\$ 1,447	\$ (2,700)	\$ 12,798	\$ 1,823	\$ 14,621
Balances as of December 31, 2016	\$ 1	\$ 11,962	\$ 3,094	\$ 287	\$ (2,700)	\$ 12,644	\$ 1,823	\$ 14,467
Cumulative effect of change in accounting, net of taxes				9		9		9

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Repurchase of subsidiary shares				(31)	(31)			
Comprehensive income (loss):								
Net income		464	464	198	662			
Other comprehensive income (loss), net of taxes		(59)	(59)	115	56			
Total comprehensive income			405	313	718			
Dividends to noncontrolling interests				(92)	(92)			
Stock-based compensation expense and exercises and other		11	11	5	16			
Balances as of September 30, 2017	\$ 1	\$ 11,973	\$ 3,035	\$ 760	\$ (2,700)	\$ 13,069	\$ 2,018	\$ 15,087

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in millions)

(Unaudited)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 624	\$ 662
Less loss from discontinued operations, net of taxes		9
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums	(92)	(107)
Net investment (gains) losses	32	(220)
Charges assessed to policyholders	(528)	(534)
Acquisition costs deferred	(63)	(67)
Amortization of deferred acquisition costs and intangibles	299	316
Deferred income taxes	115	234
Trading securities, limited partnerships and derivative instruments	(363)	716
Stock-based compensation expense	25	29
Change in certain assets and liabilities:		
Accrued investment income and other assets	(131)	(21)
Insurance reserves	1,039	1,202
Current tax liabilities	(48)	(27)
Other liabilities, policy and contract claims and other policy-related balances	64	(260)
Net cash from operating activities	973	1,932
Cash flows from (used by) investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	2,967	3,396
Commercial mortgage loans	543	454
Restricted commercial mortgage loans related to securitization entities	20	18
Proceeds from sales of investments:		
Fixed maturity and equity securities	3,325	3,269
Purchases and originations of investments:		
Fixed maturity and equity securities	(6,416)	(6,709)
Commercial mortgage loans	(769)	(608)
Other invested assets, net	364	(521)
Policy loans, net	35	28
Payments for business purchased, net of cash acquired		(5)
Net cash from (used by) investing activities	69	(678)

Cash flows used by financing activities:		
Deposits to universal life and investment contracts	805	902
Withdrawals from universal life and investment contracts	(1,806)	(2,003)
Proceeds from issuance of long-term debt	441	
Repayment and repurchase of long-term debt	(598)	
Repayment of borrowings related to securitization entities	(20)	(16)
Repurchase of subsidiary shares	(89)	(31)
Dividends paid to noncontrolling interests	(83)	(92)
Other, net		(30)
Net cash used by financing activities	(1,350)	(1,270)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(62)	68
Net change in cash, cash equivalents and restricted cash	(370)	52
Cash, cash equivalents and restricted cash at beginning of period	2,875	2,784
Cash, cash equivalents and restricted cash at end of period	\$ 2,505	\$ 2,836

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Holdings, Inc. (Genworth Holdings) (formerly known as Genworth Financial, Inc.) was incorporated in Delaware in 2003 in preparation for an initial public offering (IPO) of Genworth's common stock, which was completed on May 28, 2004. On April 1, 2013, Genworth Holdings completed a holding company reorganization pursuant to which Genworth Holdings became a direct, 100% owned subsidiary of a new public holding company that it had formed. The new public holding company was incorporated in Delaware on December 5, 2012, in connection with the reorganization, and was renamed Genworth Financial, Inc. (Genworth Financial) upon the completion of the reorganization.

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement) with Asia Pacific Global Capital Co., Ltd. (Parent), a limited liability company incorporated in the People's Republic of China, and a subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide), and Asia Pacific Global Capital USA Corporation (Merger Sub), a Delaware corporation and an indirect, wholly-owned subsidiary of Asia Pacific Insurance USA Holdings LLC (Asia Pacific Insurance) which is a Delaware limited liability company and owned by China Oceanwide. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of Asia Pacific Insurance. China Oceanwide has agreed to acquire all of our outstanding common stock for a total transaction value of approximately \$2.7 billion, or \$5.43 per share in cash. At a special meeting held on March 7, 2017, Genworth Financial's stockholders voted on and approved a proposal to adopt the Merger Agreement.

The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions. Both parties are engaging with the relevant regulators regarding the applications and the pending transaction.

The accompanying unaudited condensed financial statements include on a consolidated basis the accounts of Genworth Financial and the affiliate companies in which it holds a majority voting interest or where it is the primary beneficiary of a variable interest entity (VIE). All intercompany accounts and transactions have been eliminated in consolidation.

References to Genworth, the Company, we or our in the accompanying unaudited condensed consolidated financial statements and these notes thereto are, unless the context otherwise requires, to Genworth Financial on a consolidated basis.

We operate our business through the following five operating segments:

U.S. Mortgage Insurance. In the United States, we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans (flow mortgage insurance). We selectively provide mortgage insurance on a bulk basis (bulk mortgage insurance) with essentially all of our

bulk writings being prime-based.

Canada Mortgage Insurance. We offer flow mortgage insurance and also provide bulk mortgage insurance that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk in Canada.

Australia Mortgage Insurance. In Australia, we offer flow mortgage insurance and selectively provide bulk mortgage insurance that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

U.S. Life Insurance. We offer long-term care insurance products as well as service traditional life insurance and fixed annuity products in the United States.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold but we continue to service our existing blocks of business. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements and funding agreements backing notes.

In addition to our five operating business segments, we also have Corporate and Other activities which include debt financing expenses that are incurred at the Genworth Holdings level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2017 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(2) Accounting Changes***Accounting Pronouncements Recently Adopted*

On January 1, 2018, we early adopted new accounting guidance on the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (TCJA), or stranded tax effects. Under current U.S. GAAP, deferred tax assets and liabilities are adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the period that the changes were enacted. This also includes situations in which the related tax effects were originally recognized in other comprehensive income as opposed to income from continuing operations. The following summarizes the components for the cumulative effect adjustment recorded on January 1, 2018 related to the adoption of this new accounting guidance:

(Amounts in millions)	Accumulated other comprehensive income (loss)			Retained earnings	Total stockholders equity
	Net unrealized investment gains (losses)	Derivatives qualifying as hedges	Foreign currency translation and other adjustments		
Deferred taxes:					
Net unrealized gains on investment securities	\$ 192	\$	\$	\$ (192)	\$
Net unrealized gains on derivatives		12		(12)	
Investment in foreign subsidiaries	(3)		(46)	49	
Accrued commission and general expenses			(1)	1	
Cumulative effect of changes in accounting	\$ 189	\$ 12	\$ (47)	\$ (154)	\$

The accounting for the temporary differences related to investment in foreign subsidiaries recorded in accumulated other comprehensive income (loss) at adoption of the TCJA were provisional. Therefore, additional reclassification adjustments may be recorded in fourth quarter of 2018 as tax effects of the TCJA on related temporary differences are finalized. However, no reclassification adjustments were recorded during the second or third quarters of 2018. Other than those effects related to the TCJA, our policy is to release stranded tax effects from accumulated other comprehensive income (loss) using the portfolio approach for items related to investments and derivatives, and upon disposition of a subsidiary for items related to outside basis differences.

On January 1, 2018, we early adopted new accounting guidance related to the hedge accounting model. The new guidance amends the hedge accounting model to enable entities to better portray the economics of their derivative risk management activities in the financial statements and enhance the transparency and understandability of hedge results. In certain situations, the amendments also simplify the application of hedge accounting and removed the requirements to separately measure and report hedge ineffectiveness. We adopted this new accounting using the modified retrospective method and recognized a gain of \$2 million in accumulated other comprehensive income with a corresponding decrease to retained earnings at adoption. This gain was the cumulative amount of hedge ineffectiveness related to active hedges that was previously included in earnings.

On January 1, 2018, we adopted new accounting guidance that clarifies when to account for a change to share-based compensation as a modification. The new guidance requires modification accounting only if there are changes to the fair value, vesting conditions or classification as a liability or equity of the share-based compensation. We adopted this new accounting guidance prospectively and therefore, the guidance did not have any impact at adoption.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On January 1, 2018, we adopted new accounting guidance that clarifies the scope and accounting for gains and losses from the derecognition of nonfinancial assets or an in substance nonfinancial asset that is not a business and accounting for partial sales of nonfinancial assets. The new guidance clarifies when transferring ownership interests in a consolidated subsidiary holding nonfinancial assets is within scope. It also states that the reporting entity should identify each distinct nonfinancial asset and derecognize when a counterparty obtains control. We adopted this new accounting guidance using the modified retrospective method, which had no impact on our consolidated financial statements at adoption.

On January 1, 2018, we early adopted new accounting guidance simplifying the test for goodwill impairment. The new guidance states goodwill impairment is equal to the difference between the carrying value and fair value of the reporting unit up to the amount of recorded goodwill. We adopted this new accounting guidance prospectively and will apply it to our 2018 goodwill impairment test.

On January 1, 2018, we adopted new accounting guidance related to the classification and presentation of changes in restricted cash. The new guidance requires that changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents be shown in the statements of cash flows and requires additional disclosures related to restricted cash and restricted cash equivalents. We adopted this new accounting guidance retrospectively and modified the line item descriptions on our consolidated balance sheets and statements of cash flows in our consolidated financial statements. The other impacts from this new accounting guidance did not have a significant impact on our consolidated financial statements or disclosures.

On January 1, 2018, we adopted new accounting guidance related to the income tax effects of intra-entity transfers of assets other than inventory. The new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted this new accounting guidance using the modified retrospective method, which did not have any significant impact on our consolidated financial statements or disclosures at adoption.

On January 1, 2018, we adopted new accounting guidance related to the classification of certain cash payments and cash receipts on our statement of cash flows. The guidance reduces diversity in practice related to eight specific cash flow issues. We adopted this new accounting guidance retrospectively. We will reclassify a \$20 million make-whole premium that was incurred in the first quarter of 2016 previously included in the operating activities section of the statement of cash flows, within the line item other liabilities, policy and contract claims and other policy-related balances to the financing activities section within the line item repayment and repurchase of long-term debt in our 2018 annual consolidated financial statements filed on Form 10-K. The reclassification will result in an increase in net cash used by financing activities and an increase in net cash from operating activities. The remaining specific cash flow issues did not have a significant impact on our consolidated financial statements.

On January 1, 2018, we adopted new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. Changes to financial instruments accounting primarily affects equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial

instruments. Under the new guidance, equity investments with readily determinable fair value, except those accounted for under the equity method of accounting, are measured at fair value with changes in fair value recognized in net income. The new guidance also clarifies that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with other deferred tax assets. We adopted this new accounting guidance using the modified retrospective method and reclassified, after adjustments for deferred acquisition costs (DAC) and other intangible amortization and certain benefit reserves, taxes and noncontrolling interests, \$25 million of gains related to equity securities from accumulated

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

other comprehensive income and \$17 million of gains related to limited partnerships previously recorded at cost to cumulative effect of change in accounting within retained earnings.

On January 1, 2018, we adopted new accounting guidance related to revenue from contracts with customers. The key principle of the new guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. Insurance contracts are specifically excluded from this new guidance. The Financial Accounting Standards Board (the FASB) has clarified the scope that all of our insurance contracts, including mortgage insurance and investment contracts are excluded from the scope of this new guidance. We adopted this new accounting guidance using the modified retrospective method, which did not have any significant impact on our consolidated financial statements at adoption.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued new accounting guidance that significantly changes the recognition and measurement of long-duration insurance contracts and expands disclosure requirements, which impacts our life insurance DAC and liabilities. In accordance with the guidance, the more significant changes include:

assumptions will no longer be locked-in at contract inception and all cash flow assumptions used to estimate the liability for future policy benefits will be reviewed at least annually in the same period each year or more frequently if actual experience indicates a change is required;

changes in cash flow assumptions (except the discount rate) will be recorded in net income (loss) using a retrospective approach with a cumulative catch-up adjustment by recalculating the net premium ratio (which will be capped at 100%) using actual historical and updated future cash flow assumptions;

the discount rate used to determine the liability for future policy benefits will be a current upper-medium grade (low credit risk) fixed-income instrument yield, which is generally interpreted to mean a single-A rated bond rate for the same duration, and is required to be reviewed quarterly, with changes in the discount rate recorded in other comprehensive income (loss);

the provision for adverse deviation and the premium deficiency test will be eliminated;

market risk benefits associated with deposit-type contracts will be measured at fair value with changes recorded in net income (loss);

the amortization method for DAC will generally be on a straight-line basis over the expected contract term; and

disclosures will be greatly expanded to include significant assumptions and product liability rollforwards. The guidance is currently effective for us on January 1, 2021 using the modified retrospective method, with early adoption permitted. We are in process of evaluating the new guidance and the impact it will have on our consolidated financial statements.

In August 2018, the FASB issued new accounting guidance related to disclosure requirements for defined benefit plans as part of its disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for defined benefit pension and other postretirement benefit plans. The guidance is currently effective for us on January 1, 2020 using the retrospective method, with early adoption permitted. We do not expect any significant impact from this guidance on our consolidated financial statements and disclosures.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In August 2018, the FASB issued new accounting guidance related to fair value disclosure requirements as part of its disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for fair value measurements. The guidance includes new disclosure requirements related to the change in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. The guidance is currently effective for us on January 1, 2020 using the prospective method for certain disclosures and the retrospective method for all other disclosures. Early adoption of either the entire standard or only the provisions that eliminate or modify the requirements is permitted. We are in process of evaluating the impact the guidance may have on our consolidated financial statements and disclosures.

In June 2018, the FASB issued new accounting guidance related to accounting for nonemployee share-based payments. The guidance aligns the measurement and classification of share-based payments to nonemployees issued in exchange for goods or services with the guidance for share-based payments to employees, with certain exceptions. The guidance is currently effective for us on January 1, 2019 using the modified retrospective method, with early adoption permitted. This guidance is consistent with our previous accounting practices and, accordingly, we do not expect any impact from this guidance on our consolidated financial statements.

In March 2017, the FASB issued new accounting guidance shortening the amortization period of certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. The guidance is currently effective for us on January 1, 2019 using the modified retrospective method, with early adoption permitted. While we are still evaluating the full impact, at this time we do not expect any significant impact from this guidance on our consolidated financial statements.

In June 2016, the FASB issued new accounting guidance related to accounting for credit losses on financial instruments. The guidance requires that entities recognize an allowance equal to its estimate of lifetime expected credit losses and applies to most debt instruments not measured at fair value, which would primarily include our commercial mortgage loans and reinsurance receivables. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. The new guidance is effective for us on January 1, 2020, with early adoption permitted beginning January 1, 2019. Upon adoption, the modified retrospective method will be used and a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption will be recorded. We are in process of evaluating the impact the guidance may have on our consolidated financial statements.

In February 2016, the FASB issued new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-to-use asset and a corresponding liability on the balance sheet. The guidance is effective for us on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required as of the earliest period presented. Amendments to the guidance also allow an optional transition method practical expedient, which permits entities to apply the new lease standard using the modified retrospective transition approach at the date of adoption. Certain other practical expedients are available, which we are in the

process of evaluating. We have identified our significant leases by asset type that will be impacted by the new guidance and begun implementation of a new software platform to facilitate compliance with the new guidance. Upon adoption, we expect to apply the optional transition method and record a right-of-use asset and liability on our balance sheet related to existing operating leases. While we are still evaluating the full impact, at this time we do not expect a significant impact from this guidance on our consolidated financial statements and we are in process of evaluating the impact to our disclosures.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(3) Earnings (Loss) Per Share**

Basic and diluted earnings per share are calculated by dividing each income (loss) category presented below by the weighted-average basic and diluted common shares outstanding for the periods indicated:

(Amounts in millions, except per share amounts)	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Weighted-average shares used in basic earnings per share calculations	500.7	499.1	500.3	498.9
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	2.6	2.5	2.6	2.3
Weighted-average shares used in diluted earnings per share calculations	503.3	501.6	502.9	501.2
Income from continuing operations:				
Income from continuing operations	\$ 210	\$ 184	\$ 624	\$ 671
Less: income from continuing operations attributable to noncontrolling interests	64	68	176	198
Income from continuing operations available to Genworth Financial, Inc.'s common stockholders	\$ 146	\$ 116	\$ 448	\$ 473
Basic per share	\$ 0.29	\$ 0.23	\$ 0.89	\$ 0.95
Diluted per share	\$ 0.29	\$ 0.23	\$ 0.89	\$ 0.94
Loss from discontinued operations:				
Loss from discontinued operations, net of taxes	\$	\$ (9)	\$	\$ (9)
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests				
Loss from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders	\$	\$ (9)	\$	\$ (9)
Basic per share	\$	\$ (0.02)	\$	\$ (0.02)

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Diluted per share	\$	\$ (0.02)	\$	\$ (0.02)
Net income:				
Income from continuing operations	\$	210	\$	184
Loss from discontinued operations, net of taxes			\$	624
				\$ 671
			(9)	(9)
Net income		210		175
Less: net income attributable to noncontrolling interests		64		68
				624
				662
Net income available to Genworth Financial, Inc. s common stockholders	\$	146	\$	107
				448
				464
Basic per share	\$	0.29	\$	0.21
				0.89
				0.93
Diluted per share	\$	0.29	\$	0.21
				0.89
				0.93

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(4) Investments***(a) Net Investment Income*

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

(Amounts in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Fixed maturity securities taxable	\$ 643	\$ 640	\$ 1,929	\$ 1,930
Fixed maturity securities non-taxable	3	3	9	9
Equity securities	11	9	31	26
Commercial mortgage loans	81	78	240	231
Restricted commercial mortgage loans related to securitization entities	1	3	5	7
Policy loans	41	39	125	120
Other invested assets	44	39	136	106
Restricted other invested assets related to securitization entities				1
Cash, cash equivalents and short-term investments	13	10	39	26
Gross investment income before expenses and fees	837	821	2,514	2,456
Expenses and fees	(22)	(24)	(67)	(68)
Net investment income	\$ 815	\$ 797	\$ 2,447	\$ 2,388

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(b) Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the periods indicated:

(Amounts in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Available-for-sale securities:				
Realized gains	\$ 22	\$ 40	\$ 42	\$ 177
Realized losses	(30)	(10)	(67)	(55)
Net realized gains (losses) on available-for-sale securities	(8)	30	(25)	122
Impairments:				
Total other-than-temporary impairments		(1)		(4)
Portion of other-than-temporary impairments included in other comprehensive income (loss)				
Net other-than-temporary impairments		(1)		(4)
Net realized gains (losses) on equity securities sold			10	
Net unrealized gains (losses) on equity securities still held			(15)	
Trading securities				1
Limited partnerships	3		8	
Commercial mortgage loans		1		3
Net gains (losses) related to securitization entities		1		5
Derivative instruments ⁽¹⁾	18	54	(10)	93
Net investment gains (losses)	\$ 13	\$ 85	\$ (32)	\$ 220

⁽¹⁾ See note 5 for additional information on the impact of derivative instruments included in net investment gains (losses).

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and

liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended September 30, 2018 and 2017 was \$725 million and \$286 million, respectively, which was approximately 96% and 97%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2018 and 2017 was \$1,984 million and \$1,390 million, respectively, which was approximately 97% and 96%, respectively, of book value.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following represents the activity for credit losses recognized in net income on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in other comprehensive income (OCI) as of and for the periods indicated:

(Amounts in millions)	As of or for the three months ended		As of or for the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Beginning balance	\$ 25	\$ 38	\$ 32	\$ 42
Reductions:				
Securities sold, paid down or disposed		(5)	(7)	(9)
Ending balance	\$ 25	\$ 33	\$ 25	\$ 33

(c) Unrealized Investment Gains and Losses

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

(Amounts in millions)	September 30, 2018	December 31, 2017
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	\$ 2,000	\$ 5,125
Equity securities		69
Subtotal ⁽¹⁾	2,000	5,194
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,180)	(3,451)
Income taxes, net	(178)	(583)
Net unrealized investment gains (losses)	642	1,160
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	34	75
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	\$ 608	\$ 1,085

- (1) Excludes foreign exchange.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The change in net unrealized gains (losses) on available-for-sale investment securities reported in accumulated other comprehensive income (loss) was as follows as of and for the periods indicated:

(Amounts in millions)	As of or for the three months ended September 30,	
	2018	2017
Beginning balance	\$ 736	\$ 1,180
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(564)	(10)
Adjustment to deferred acquisition costs	292	(1)
Adjustment to present value of future profits	9	(3)
Adjustment to sales inducements	3	
Adjustment to benefit reserves	65	(92)
Provision for income taxes	54	36
Change in unrealized gains (losses) on investment securities	(141)	(70)
Reclassification adjustments to net investment (gains) losses, net of taxes of \$(2) and \$10	7	(19)
Change in net unrealized investment gains (losses)	(134)	(89)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(6)	(17)
Ending balance	\$ 608	\$ 1,108

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

(Amounts in millions)	As of or for the nine months ended September 30,	
	2018	2017
Beginning balance	\$ 1,085	\$ 1,262
Cumulative effect of changes in accounting:		
Stranded tax effects	189	
Recognition and measurement of financial assets and liabilities, net of taxes of \$18 and \$	(25)	
Total cumulative effect of changes in accounting	164	
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(3,150)	1,377
Adjustment to deferred acquisition costs	1,201	(1,047)
Adjustment to present value of future profits	65	(36)
Adjustment to sales inducements	32	(11)
Adjustment to benefit reserves	967	(429)
Provision for income taxes	203	51
Change in unrealized gains (losses) on investment securities	(682)	(95)
Reclassification adjustments to net investment (gains) losses, net of taxes of \$(5) and \$41	20	(77)
Change in net unrealized investment gains (losses)	(662)	(172)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(21)	(18)
Ending balance	\$ 608	\$ 1,108

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of September 30, 2018, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

(Amounts in millions)	Gross unrealized gains		Gross unrealized losses		Fair value
	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 4,733	\$ 491	\$	\$ (43)	\$ 5,181
State and political subdivisions	2,686	156		(47)	2,795
Non-U.S. government	2,265	65		(41)	2,289
U.S. corporate:					
Utilities	4,459	341		(89)	4,711
Energy	2,228	136		(28)	2,336
Finance and insurance	6,203	264		(115)	6,352
Consumer non-cyclical	4,496	298		(90)	4,704
Technology and communications	2,704	127		(56)	2,775
Industrial	1,152	52		(19)	1,185
Capital goods	2,209	167		(41)	2,335
Consumer cyclical	1,543	62		(32)	1,573
Transportation	1,190	81		(33)	1,238
Other	315	15		(1)	329
Total U.S. corporate	26,499	1,543		(504)	27,538
Non-U.S. corporate:					
Utilities	1,028	18		(26)	1,020
Energy	1,299	98		(18)	1,379
Finance and insurance	2,483	91		(37)	2,537
Consumer non-cyclical	730	9		(18)	721
Technology and communications	1,085	28		(16)	1,097
Industrial	904	40		(11)	933
Capital goods	603	13		(9)	607
Consumer cyclical	543	2		(11)	534

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Transportation	690	43	(13)	720	
Other	2,542	108	(25)	2,625	
Total non-U.S. corporate	11,907	450	(184)	12,173	
Residential mortgage-backed	3,125	123	13	3,222	
Commercial mortgage-backed	3,217	38	(99)	3,156	
Other asset-backed	3,066	4	1	3,050	
Total available-for-sale fixed maturity securities	\$ 57,498	\$ 2,870	\$ 14	\$ (978)	\$ 59,404

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

As of December 31, 2017, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

(Amounts in millions)	Gross unrealized gains		Gross unrealized losses		Fair value
	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 4,681	\$ 870	\$	\$ (3)	\$ 5,548
State and political subdivisions	2,678	270		(22)	2,926
Non-U.S. government	2,147	106		(20)	2,233
U.S. corporate:					
Utilities	4,396	611		(9)	4,998
Energy	2,239	227		(8)	2,458
Finance and insurance	5,984	556		(12)	6,528
Consumer non-cyclical	4,314	530		(13)	4,831
Technology and communications	2,665	192		(12)	2,845
Industrial	1,241	106		(1)	1,346
Capital goods	2,087	273		(5)	2,355
Consumer cyclical	1,493	116		(4)	1,605
Transportation	1,160	134		(3)	1,291
Other	355	25		(1)	379
Total U.S. corporate	25,934	2,770		(68)	28,636
Non-U.S. corporate:					
Utilities	979	42		(4)	1,017
Energy	1,337	158		(5)	1,490
Finance and insurance	2,567	174		(6)	2,735
Consumer non-cyclical	686	30		(4)	712
Technology and communications	913	71		(2)	982
Industrial	958	88		(2)	1,044
Capital goods	614	33		(2)	645
Consumer cyclical	532	9		(1)	540
Transportation	656	68		(3)	721
Other	2,536	193		(4)	2,725

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Total non-U.S. corporate	11,778	866		(33)		12,611
Residential mortgage-backed	3,831	223	14	(11)		4,057
Commercial mortgage-backed	3,387	94	2	(37)		3,446
Other asset-backed	3,056	17	1	(6)		3,068
Total fixed maturity securities	57,492	5,216	17	(200)		62,525
Equity securities	756	72		(8)		820
Total available-for-sale securities	\$ 58,248	\$ 5,288	\$ 17	\$ (208)	\$	\$ 63,345

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our fixed maturity securities, aggregated by investment type and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of September 30, 2018:

Description of Securities	Less than 12 months			12 months or more			Total		
	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities
(Dollar amounts in millions)									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	\$ 911	\$ (32)	52	\$ 113	\$ (11)	12	\$ 1,024	\$ (43)	64
State and political subdivisions	618	(22)	125	344	(25)	52	962	(47)	177
Non-U.S. government	754	(16)	76	465	(25)	28	1,219	(41)	104
U.S. corporate	9,901	(354)	1,345	1,702	(150)	236	11,603	(504)	1,581
Non-U.S. corporate	4,353	(125)	592	869	(59)	131	5,222	(184)	723
Residential mortgage-backed	884	(21)	135	441	(18)	81	1,325	(39)	216
Commercial mortgage-backed	1,078	(30)	164	706	(69)	105	1,784	(99)	269
Other asset-backed	1,669	(15)	300	381	(6)	83	2,050	(21)	383
Total for fixed maturity securities in an unrealized loss position	\$ 20,168	\$ (615)	2,789	\$ 5,021	\$ (363)	728	\$ 25,189	\$ (978)	3,517
% Below cost:									
<20% Below cost	\$ 20,163	\$ (614)	2,787	\$ 5,007	\$ (357)	723	\$ 25,170	\$ (971)	3,510
20%-50% Below cost	5	(1)	2	14	(6)	5	19	(7)	7
Total for fixed maturity securities in an unrealized loss position	\$ 20,168	\$ (615)	2,789	\$ 5,021	\$ (363)	728	\$ 25,189	\$ (978)	3,517
Investment grade	\$ 19,212	\$ (581)	2,653	\$ 4,882	\$ (350)	697	\$ 24,094	\$ (931)	3,350
Below investment grade	956	(34)	136	139	(13)	31	1,095	(47)	167
Total for fixed maturity securities in an unrealized loss	\$ 20,168	\$ (615)	2,789	\$ 5,021	\$ (363)	728	\$ 25,189	\$ (978)	3,517

position

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of September 30, 2018:

(Dollar amounts in millions) Description of Securities	Less than 12 months			12 months or more			Total		
	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities
U.S. corporate:									
Utilities	\$ 1,321	\$ (59)	191	\$ 281	\$ (30)	50	\$ 1,602	\$ (89)	241
Energy	633	(19)	94	130	(9)	16	763	(28)	110
Finance and insurance	2,720	(89)	378	408	(26)	51	3,128	(115)	429
Consumer non-cyclical	1,687	(65)	198	261	(25)	34	1,948	(90)	232
Technology and communications	1,065	(34)	142	222	(22)	28	1,287	(56)	170
Industrial	457	(15)	58	46	(4)	7	503	(19)	65
Capital goods	749	(28)	102	114	(13)	19	863	(41)	121
Consumer cyclical	715	(23)	109	110	(9)	14	825	(32)	123
Transportation	486	(21)	69	116	(12)	16	602	(33)	85
Other	68	(1)	4	14		1	82	(1)	5
Subtotal, U.S. corporate securities	9,901	(354)	1,345	1,702	(150)	236	11,603	(504)	1,581
Non-U.S. corporate:									
Utilities	413	(14)	56	135	(12)	16	548	(26)	72
Energy	381	(12)	53	108	(6)	13	489	(18)	66
Finance and insurance	1,046	(27)	148	181	(10)	31	1,227	(37)	179
Consumer non-cyclical	330	(12)	34	83	(6)	11	413	(18)	45
Technology and communications	523	(13)	68	35	(3)	7	558	(16)	75
Industrial	249	(7)	41	37	(4)	4	286	(11)	45
Capital goods	227	(7)	26	34	(2)	7	261	(9)	33
Consumer cyclical	361	(10)	46	36	(1)	9	397	(11)	55
Transportation	228	(6)	27	70	(7)	10	298	(13)	37
Other	595	(17)	93	150	(8)	23	745	(25)	116

Subtotal, non-U.S. corporate securities	4,353	(125)	592	869	(59)	131	5,222	(184)	723
---	-------	-------	-----	-----	------	-----	-------	-------	-----

Total for corporate securities in an unrealized loss position	\$ 14,254	\$ (479)	1,937	\$ 2,571	\$ (209)	367	\$ 16,825	\$ (688)	2,304
---	-----------	----------	-------	----------	----------	-----	-----------	----------	-------

For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of the amount and timing of cash flows to be collected. We do not intend to sell nor do we expect that we will be required to sell these securities prior to recovering our amortized cost.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and 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, 2017:

(Dollar amounts in millions)	Less than 12 months			12 months or more			Total		
	Gross Fair unrealized value	Number of losses securities	Number of securities	Gross Fair unrealized value	Number of losses securities	Number of securities	Gross Fair unrealized value	Number of losses securities	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises									
	\$ 78	\$ (1)	21	\$ 94	\$ (2)	7	\$ 172	\$ (3)	28
State and political subdivisions	125	(1)	35	327	(21)	42	452	(22)	77
Non-U.S. government	583	(7)	26	239	(13)	20	822	(20)	46
U.S. corporate	1,871	(26)	296	1,347	(42)	190	3,218	(68)	486
Non-U.S. corporate	1,323	(12)	217	548	(21)	77	1,871	(33)	294
Residential mortgage-backed									
	707	(7)	81	130	(4)	46	837	(11)	127
Commercial mortgage-backed	476	(4)	69	646	(33)	90	1,122	(37)	159
Other asset-backed	853	(4)	160	230	(2)	57	1,083	(6)	217
Subtotal, fixed maturity securities	6,016	(62)	905	3,561	(138)	529	9,577	(200)	1,434
Equity securities	74	(3)	134	100	(5)	58	174	(8)	192
Total for securities in an unrealized loss position	\$ 6,090	\$ (65)	1,039	\$ 3,661	\$ (143)	587	\$ 9,751	\$ (208)	1,626
% Below cost fixed maturity securities:									
<20% Below cost	\$ 6,016	\$ (62)	905	\$ 3,555	\$ (136)	526	\$ 9,571	\$ (198)	1,431
20%-50% Below cost				6	(2)	3	6	(2)	3
Total fixed maturity securities	6,016	(62)	905	3,561	(138)	529	9,577	(200)	1,434
% Below cost equity securities:									
<20% Below cost	74	(3)	134	100	(5)	58	174	(8)	192

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Total equity securities	74	(3)	134	100	(5)	58	174	(8)	192
Total for securities in an unrealized loss position	\$ 6,090	\$ (65)	1,039	\$ 3,661	\$ (143)	587	\$ 9,751	\$ (208)	1,626
Investment grade	\$ 5,867	\$ (55)	898	\$ 3,488	\$ (135)	528	\$ 9,355	\$ (190)	1,426
Below investment grade	223	(10)	141	173	(8)	59	396	(18)	200
Total for securities in an unrealized loss position	\$ 6,090	\$ (65)	1,039	\$ 3,661	\$ (143)	587	\$ 9,751	\$ (208)	1,626

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of December 31, 2017:

(Dollar amounts in millions)	Less than 12 months			12 months or more			Total		
	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities
Description of Securities									
U.S. corporate:									
Utilities	\$ 181	\$ (2)	33	\$ 219	\$ (7)	36	\$ 400	\$ (9)	69
Energy	106	(1)	22	140	(7)	15	246	(8)	37
Finance and insurance	626	(6)	91	222	(6)	30	848	(12)	121
Consumer non-cyclical	299	(7)	46	221	(6)	31	520	(13)	77
Technology and communications	217	(4)	32	210	(8)	29	427	(12)	61
Industrial				62	(1)	9	62	(1)	9
Capital goods	176	(2)	25	81	(3)	14	257	(5)	39
Consumer cyclical	137	(2)	24	95	(2)	13	232	(4)	37
Transportation	117	(1)	21	97	(2)	13	214	(3)	34
Other	12	(1)	2				12	(1)	2
Subtotal, U.S. corporate securities	1,871	(26)	296	1,347	(42)	190	3,218	(68)	486
Non-U.S. corporate:									
Utilities	113	(1)	23	72	(3)	8	185	(4)	31
Energy	118	(2)	19	74	(3)	12	192	(5)	31
Finance and insurance	347	(3)	56	117	(3)	19	464	(6)	75
Consumer non-cyclical	69	(1)	11	60	(3)	6	129	(4)	17
Technology and communications	107	(1)	18	30	(1)	6	137	(2)	24
Industrial	52		9	38	(2)	5	90	(2)	14
Capital goods	54		11	46	(2)	3	100	(2)	14
Consumer cyclical	131	(1)	21				131	(1)	21
Transportation	47	(1)	7	64	(2)	8	111	(3)	15
Other	285	(2)	42	47	(2)	10	332	(4)	52
Subtotal, non-U.S. corporate securities	1,323	(12)	217	548	(21)	77	1,871	(33)	294

Total for corporate securities in an unrealized loss position	\$ 3,194	\$ (38)	513	\$ 1,895	\$ (63)	267	\$ 5,089	\$ (101)	780
--	----------	---------	-----	----------	---------	-----	----------	----------	-----

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The scheduled maturity distribution of fixed maturity securities as of September 30, 2018 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	\$ 1,708	\$ 1,719
Due after one year through five years	10,884	10,987
Due after five years through ten years	12,477	12,531
Due after ten years	23,021	24,739
Subtotal	48,090	49,976
Residential mortgage-backed	3,125	3,222
Commercial mortgage-backed	3,217	3,156
Other asset-backed	3,066	3,050
Total	\$ 57,498	\$ 59,404

As of September 30, 2018, securities issued by finance and insurance, consumer non-cyclical and utilities industry groups represented approximately 22%, 14% and 14%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of September 30, 2018, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders' equity.

(e) Commercial Mortgage Loans

Our mortgage loans are collateralized by commercial properties, including multi-family residential buildings. The carrying value of commercial mortgage loans is stated at original cost net of principal payments, amortization and allowance for loan losses.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

We diversify our commercial mortgage loans by both property type and geographic region. The following tables set forth the distribution across property type and geographic region for commercial mortgage loans as of the dates indicated:

(Amounts in millions)	September 30, 2018		December 31, 2017	
	Carrying value	% of total	Carrying value	% of total
Property type:				
Retail	\$ 2,412	36%	\$ 2,239	35%
Industrial	1,629	25	1,628	26
Office	1,521	23	1,510	24
Apartments	494	8	478	8
Mixed use	251	4	223	3
Other	274	4	275	4
Subtotal	6,581	100%	6,353	100%
Unamortized balance of loan origination fees and costs	(4)		(3)	
Allowance for losses	(9)		(9)	
Total	\$ 6,568		\$ 6,341	

(Amounts in millions)	September 30, 2018		December 31, 2017	
	Carrying value	% of total	Carrying value	% of total
Geographic region:				
South Atlantic	\$ 1,699	26%	\$ 1,625	26%
Pacific	1,633	25	1,622	26
Middle Atlantic	952	15	927	14
Mountain	624	10	556	9
West North Central	471	7	446	7
East North Central	401	6	394	6
West South Central	356	5	336	5
East South Central	228	3	208	3

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

New England	217	3	239	4
Subtotal	6,581	100%	6,353	100%
Unamortized balance of loan origination fees and costs	(4)		(3)	
Allowance for losses	(9)		(9)	
Total	\$ 6,568		\$ 6,341	

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables set forth the aging of past due commercial mortgage loans by property type as of the dates indicated:

(Amounts in millions)	September 30, 2018					
	31-60 days	61-90 days	Greater than	Total	Current	Total
	past due	past due	90 days past due			
Property type:						
Retail	\$	\$	\$	\$	\$ 2,412	\$ 2,412
Industrial					1,629	1,629
Office			6	6	1,515	1,521
Apartments					494	494
Mixed use					251	251
Other					274	274
Total recorded investment	\$	\$	\$ 6	\$ 6	\$ 6,575	\$ 6,581
% of total commercial mortgage loans	%	%	%	%	100%	100%

(Amounts in millions)	December 31, 2017					
	31-60 days	61-90 days	Greater than	Total	Current	Total
	past due	past due	90 days past due			
Property type:						
Retail	\$ 5	\$	\$	\$ 5	\$ 2,234	\$ 2,239
Industrial					1,628	1,628
Office			6	6	1,504	1,510
Apartments					478	478
Mixed use					223	223
Other					275	275
Total recorded investment	\$ 5	\$	\$ 6	\$ 11	\$ 6,342	\$ 6,353
% of total commercial mortgage loans	%	%	%	%	100%	100%

As of September 30, 2018 and December 31, 2017, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of September 30, 2018 and December 31, 2017.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of September 30, 2018, our commercial mortgage loans greater than 90 days past due included one impaired loan. This loan had an appraised value in excess of the recorded investment and the current recorded investment of this loan is expected to be recoverable.

During the nine months ended September 30, 2018 and the year ended December 31, 2017, we modified or extended two and ten commercial mortgage loans, respectively, with a total carrying value of \$12 million and \$27 million, respectively. All of these modifications or extensions were based on current market interest rates and did not result in any forgiveness in the outstanding principal amount owed by the borrower.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table sets forth the allowance for credit losses and recorded investment in commercial mortgage loans as of or for the periods indicated:

(Amounts in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Allowance for credit losses:				
Beginning balance	\$ 9	\$ 10	\$ 9	\$ 12
Charge-offs				
Recoveries				
Provision				(2)
Ending balance	\$ 9	\$ 10	\$ 9	\$ 10
Ending allowance for individually impaired loans	\$	\$	\$	\$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	\$ 9	\$ 10	\$ 9	\$ 10
Recorded investment:				
Ending balance	\$ 6,581	\$ 6,281	\$ 6,581	\$ 6,281
Ending balance of individually impaired loans	\$ 6	\$	\$ 6	\$
Ending balance of loans not individually impaired that were evaluated collectively for impairment	\$ 6,575	\$ 6,281	\$ 6,575	\$ 6,281

As of September 30, 2018 and December 31, 2017, we had one individually impaired loan within the office property type with a recorded investment and unpaid principal balance of \$6 million. As of September 30, 2017, we had no individually impaired commercial mortgage loans.

In evaluating the credit quality of commercial mortgage loans, we assess the performance of the underlying loans using both quantitative and qualitative criteria. Certain risks associated with commercial mortgage loans can be evaluated by reviewing both the loan-to-value and debt service coverage ratio to understand both the probability of the borrower not being able to make the necessary loan payments as well as the ability to sell the underlying property for an amount that would enable us to recover our unpaid principal balance in the event of default by the borrower. The average loan-to-value ratio is based on our most recent estimate of the fair value for the underlying property which is

evaluated at least annually and updated more frequently if necessary to better indicate risk associated with the loan. A lower loan-to-value indicates that our loan value is more likely to be recovered in the event of default by the borrower if the property was sold. The debt service coverage ratio is based on normalized annual income of the property compared to the payments required under the terms of the loan. Normalization allows for the removal of annual one-time events such as capital expenditures, prepaid or late real estate tax payments or non-recurring third-party fees (such as legal, consulting or contract fees). This ratio is evaluated at least annually and updated more frequently if necessary to better indicate risk associated with the loan. A higher debt service coverage ratio indicates the borrower is less likely to default on the loan. The debt service coverage ratio is not used without considering other factors associated with the borrower, such as the borrower's liquidity or access to other resources that may result in our expectation that the borrower will continue to make the future scheduled payments.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following tables set forth the loan-to-value of commercial mortgage loans by property type as of the dates indicated:

(Amounts in millions)	September 30, 2018					Total
	0%-50%	51%-60%	61%-75%	76%-100%	Greater than 100%	
Property type:						
Retail	\$ 794	\$ 488	\$ 1,130	\$	\$	\$ 2,412
Industrial	712	302	615			1,629
Office	413	449	651	8		1,521
Apartments	200	113	176	5		494
Mixed use	100	54	97			251
Other	29	36	209			274
Total recorded investment	\$ 2,248	\$ 1,442	\$ 2,878	\$ 13	\$	\$ 6,581
% of total	34%	22%	44%	%	%	100%
Weighted-average debt service coverage ratio	2.31	1.87	1.62	1.07		1.91

(Amounts in millions)	December 31, 2017					Total
	0%-50%	51%-60%	61%-75%	76%-100%	Greater than 100% ⁽¹⁾	
Property type:						
Retail	\$ 919	\$ 500	\$ 820	\$	\$	\$ 2,239
Industrial	731	363	532	2		1,628
Office	575	386	534	13	2	1,510
Apartments	226	101	146	5		478
Mixed use	99	59	65			223
Other	68	28	179			275
Total recorded investment	\$ 2,618	\$ 1,437	\$ 2,276	\$ 20	\$ 2	\$ 6,353
% of total	41%	23%	36%	%	%	100%

Weighted-average debt service coverage ratio	2.65	1.85	1.62	0.62	1.04	2.09
--	------	------	------	------	------	------

- (1) Included a loan with a recorded investment of \$2 million in good standing, where the borrower continued to make timely payments, with a loan-to-value of 102%. We evaluated this loan on an individual basis and as it is in good standing, the current recorded investment is expected to be recoverable.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following tables set forth the debt service coverage ratio for fixed rate commercial mortgage loans by property type as of the dates indicated:

(Amounts in millions)	September 30, 2018					Total
	Less than 1.00	1.00-1.25	1.26-1.50	1.51-2.00	Greater than 2.00	
Property type:						
Retail	\$ 40	\$ 194	\$ 417	\$ 1,197	\$ 564	\$ 2,412
Industrial	19	60	203	756	591	1,629
Office	33	69	169	732	518	1,521
Apartments	12	17	93	189	183	494
Mixed use	5	4	50	89	103	251
Other	1	146	32	86	9	274
Total recorded investment	\$ 110	\$ 490	\$ 964	\$ 3,049	\$ 1,968	\$ 6,581
% of total	2%	7%	15%	46%	30%	100%
Weighted-average loan-to-value	54%	59%	62%	60%	45%	55%

(Amounts in millions)	December 31, 2017					Total
	Less than 1.00	1.00-1.25	1.26-1.50	1.51-2.00	Greater than 2.00	
Property type:						
Retail	\$ 43	\$ 235	\$ 301	\$ 1,020	\$ 640	\$ 2,239
Industrial	23	61	174	700	670	1,628
Office	51	61	157	569	672	1,510
Apartments		17	77	191	193	478
Mixed use	2	4	26	86	105	223
Other	1	149	14	71	40	275
Total recorded investment	\$ 120	\$ 527	\$ 749	\$ 2,637	\$ 2,320	\$ 6,353
% of total	2%	8%	12%	42%	36%	100%
Weighted-average loan-to-value	55%	60%	58%	58%	42%	52%

As of September 30, 2018 and December 31, 2017, we did not have any floating rate commercial mortgage loans.

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

We have a consolidated securitization entity that holds commercial mortgage loans that are recorded as restricted commercial mortgage loans related to securitization entities.

(g) Limited Partnerships or Similar Entities

Limited partnerships are accounted for at fair value when our partnership interest is considered minor (generally less than 3% ownership in the limited partnerships) and we exercise no influence over operating and financial policies. If our ownership percentage exceeds that threshold, limited partnerships are accounted for using the equity method of accounting. In applying either method, we use financial information provided by the investee generally on a one-to-three month lag.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Investments in partnerships or similar entities are generally considered VIEs when the equity group lacks sufficient financial control. Generally, these investments are limited partner or non-managing member equity investments in a widely held fund that is sponsored and managed by a reputable asset manager. We are not the primary beneficiary of any VIE investment in a limited partnership or similar entity. As of September 30, 2018 and December 31, 2017, the total carrying value of these investments was \$330 million and \$222 million, respectively. Our maximum exposure to loss is equal to the outstanding carrying value and future funding commitments. We have not contributed, and do not plan to contribute, any additional financial or other support outside of what is contractually obligated.

(5) Derivative Instruments

Our business activities routinely deal with fluctuations in interest rates, equity prices, currency exchange rates and other asset and liability prices. We use derivative instruments to mitigate or reduce certain of these risks. We have established policies for managing each of these risks, including prohibitions on derivatives market-making and other speculative derivatives activities. These policies require the use of derivative instruments in concert with other techniques to reduce or mitigate these risks. While we use derivatives to mitigate or reduce risks, certain derivatives do not meet the accounting requirements to be designated as hedging instruments and are denoted as derivatives not designated as hedges in the following disclosures. For derivatives that meet the accounting requirements to be designated as hedges, the following disclosures for these derivatives are denoted as derivatives designated as hedges, which include both cash flow and fair value hedges.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table sets forth our positions in derivative instruments as of the dates indicated:

(Amounts in millions)	Derivative assets		Derivative liabilities			
	Balance sheet classification	Fair value September 30, 2018	Fair value December 31, 2017	Balance sheet classification	Fair value September 30, 2018	Fair value December 31, 2017
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	\$ 36	\$ 74	Other liabilities	\$ 155	\$ 25
Foreign currency swaps	Other invested assets	2	1	Other liabilities		
Total cash flow hedges		38	75		155	25
Total derivatives designated as hedges		38	75		155	25
Derivatives not designated as hedges						
Interest rate swaps in a foreign currency	Other invested assets	116	105	Other liabilities		
Interest rate caps and floors	Other invested assets	3		Other liabilities		
Foreign currency swaps	Other invested assets	5	11	Other liabilities	3	
Equity index options	Other invested assets	79	80	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets			Other liabilities	1	2
Other foreign currency contracts	Other invested assets	4	5	Other liabilities	19	20
GMWB embedded derivatives	Reinsurance recoverable ⁽¹⁾	11	14	Policyholder account balances ⁽²⁾	201	250
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances ⁽³⁾	446	419
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances ⁽⁴⁾	13	14
Total derivatives not designated as hedges		218	215		683	705

Total derivatives	\$ 256	\$ 290	\$ 838	\$ 730
-------------------	--------	--------	--------	--------

- (1) Represents embedded derivatives associated with the reinsured portion of our guaranteed minimum withdrawal benefits (GMWB) liabilities.
- (2) Represents the embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
- (3) Represents the embedded derivatives associated with our fixed index annuity liabilities.
- (4) Represents the embedded derivatives associated with our indexed universal life liabilities.

The fair value of derivative positions presented above was not offset by the respective collateral amounts received or provided under these agreements.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for GMWB, fixed index annuity embedded derivatives and indexed universal life embedded derivatives, the change between periods is best illustrated by the number of policies. The following tables represent activity associated with derivative instruments as of the dates indicated:

(Notional in millions)	Measurement	December 31, 2017	Additions	Maturities/ terminations	September 30, 2018
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	\$ 11,155	\$ 1,645	\$ (1,978)	\$ 10,822
Foreign currency swaps	Notional	22	58		80
Total cash flow hedges		11,177	1,703	(1,978)	10,902
Total derivatives designated as hedges		11,177	1,703	(1,978)	10,902
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,679		(5)	4,674
Interest rate swaps in a foreign currency	Notional	2,793	117	(203)	2,707
Interest rate caps and floors	Notional		2,090	(79)	2,011
Foreign currency swaps	Notional	349	133	(23)	459
Credit default swaps	Notional	39		(39)	
Equity index options	Notional	2,420	1,895	(1,484)	2,831
Financial futures	Notional	1,283	3,901	(3,964)	1,220
Equity return swaps	Notional	96	3	(78)	21
Other foreign currency contracts	Notional	471	516	(502)	485
Total derivatives not designated as hedges		12,130	8,655	(6,377)	14,408
Total derivatives		\$ 23,307	\$ 10,358	\$ (8,355)	\$ 25,310

(Number of policies)	Measurement	December 31, 2017	Additions	Maturities/ terminations	September 30, 2018
Derivatives not designated as hedges					

GMWB embedded derivatives	Policies	30,450	(2,008)	28,442
Fixed index annuity embedded derivatives	Policies	17,067	(390)	16,677
Indexed universal life embedded derivatives	Policies	985	(38)	947
<i>Cash Flow Hedges</i>				

Certain derivative instruments are designated as cash flow hedges. The changes in fair value of these instruments are recorded as a component of OCI. We designate and account for the following as cash flow hedges when they have met the effectiveness requirements: (i) various types of interest rate swaps to convert floating rate investments to fixed rate investments; (ii) various types of interest rate swaps to convert floating rate liabilities into fixed rate liabilities; (iii) receive U.S. dollar fixed on foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments; (iv) forward starting interest rate swaps to hedge against changes in interest rates associated with future fixed rate bond purchases and/or interest income; (v) forward bond purchase commitments to hedge against the variability in the anticipated cash flows required to purchase future fixed rate bonds; and (vi) other instruments to hedge the cash flows of various forecasted transactions.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended September 30, 2018:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income
Interest rate swaps hedging assets	\$ (164)	\$ 38	Net investment income
Interest rate swaps hedging liabilities	9		Interest expense
Foreign currency swaps	1		Net investment income
Total	\$ (154)	\$ 38	

The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended September 30, 2017:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income (¹)	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	\$ 17	\$ 34	Net investment income	\$	Net investment gains (losses)
Foreign currency swaps	(1)		Net investment income		Net investment gains (losses)
Total	\$ 16	\$ 34		\$	

⁽¹⁾ Represents ineffective portion of cash flow hedges as there were no amounts excluded from the measurement of effectiveness.

The following table provides information about the pre-tax income effects of cash flow hedges for the nine months ended September 30, 2018:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income
Interest rate swaps hedging assets	\$ (391)	\$ 112	Net investment income
Interest rate swaps hedging assets		5	Net investment gains (losses)
Interest rate swaps hedging liabilities	31		Interest expense
Foreign currency swaps	1		Net investment income
Total	\$ (359)	\$ 117	

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information about the pre-tax income effects of cash flow hedges for the nine months ended September 30, 2017:

(Amounts in millions)	Gain (loss) reclassified		Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income	
	Gain (loss) recognized in OCI	into net OCI		Gain (loss) recognized in net income ⁽¹⁾	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	\$ 50	\$ 95	Net investment income	\$	Net investment gains (losses)
Interest rate swaps hedging assets		2	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	(2)		Interest expense		Net investment gains (losses)
Foreign currency swaps	(2)		Net investment income		Net investment gains (losses)
Total	\$ 46	\$ 97		\$	

⁽¹⁾ Represents ineffective portion of cash flow hedges as there were no amounts excluded from the measurement of effectiveness.

The following tables provide a reconciliation of current period changes, net of applicable income taxes, for these designated derivatives presented in the separate component of stockholders' equity labeled derivatives qualifying as hedges, for the periods indicated:

(Amounts in millions)	Three months ended September 30,	
	2018	2017
Derivatives qualifying as effective accounting hedges as of July 1	\$ 1,863	\$ 2,064
Current period increases (decreases) in fair value, net of deferred taxes of \$32 and \$(6)	(122)	10
Reclassification to net (income), net of deferred taxes of \$14 and \$12	(24)	(22)

Derivatives qualifying as effective accounting hedges as of September 30	\$ 1,717	\$ 2,052
--	----------	----------

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Nine months ended	
	September 30, 2018	2017
Derivatives qualifying as effective accounting hedges as of January 1	\$ 2,065	\$ 2,085
Cumulative effect of changes in accounting:		
Stranded tax effects	12	
Changes to the hedge accounting model, net of deferred taxes of \$(1) and \$	2	
Total cumulative effect of changes in accounting	14	
Current period increases (decreases) in fair value, net of deferred taxes of \$75 and \$(17)	(287)	29
Reclassification to net (income), net of deferred taxes of \$42 and \$35	(75)	(62)
Derivatives qualifying as effective accounting hedges as of September 30	\$ 1,717	\$ 2,052

The total of derivatives designated as cash flow hedges of \$1,717 million, net of taxes, recorded in stockholders' equity as of September 30, 2018 is expected to be reclassified to net income in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, \$106 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2057. During the nine months ended September 30, 2018, we reclassified \$6 million to net income in connection with forecasted transactions that were no longer considered probable of occurring.

Derivatives Not Designated As Hedges

We also enter into certain non-qualifying derivative instruments such as: (i) interest rate swaps and financial futures to mitigate interest rate risk as part of managing regulatory capital positions; (ii) credit default swaps to enhance yield and reproduce characteristics of investments with similar terms and credit risk; (iii) equity index options, equity return swaps, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits, fixed index annuities and indexed universal life; (iv) interest rate swaps, interest rate swaps in a foreign currency and interest rate caps and floors where the hedging relationship does not qualify for hedge accounting; (v) credit default swaps to mitigate loss exposure to certain credit risk; (vi) foreign currency swaps, options and forward contracts to mitigate currency risk associated with non-functional currency investments held by certain foreign subsidiaries and future dividends or other cash flows from certain foreign subsidiaries to our holding company; and (vii) equity index options to mitigate certain macroeconomic risks associated with certain foreign subsidiaries. Additionally, we provide GMWBs on certain variable annuities that are required to be bifurcated as embedded derivatives. We also offer fixed index annuity and indexed universal life products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

We also had, prior to the fourth quarter of 2017, derivatives related to securitization entities where we were required to consolidate the related securitization entity as a result of our involvement in the structure. The counterparties for these derivatives typically only had recourse to the securitization entity. The interest rate swaps used for these entities were typically used to effectively convert the interest payments on the assets of the securitization entity to the same basis as the interest rate on the borrowings issued by the securitization entity. Credit default swaps were utilized in certain securitization entities to enhance the yield payable on the borrowings issued by the securitization entity and also included a settlement feature that allows the securitization entity to provide the par value of assets in the securitization entity for the amount of any losses incurred under the credit default swap.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables provide the pre-tax gain (loss) recognized in net income for the effects of derivatives not designated as hedges for the periods indicated:

(Amounts in millions)	Three months ended		Classification of gain (loss) recognized in net income
	September 30, 2018	2017	
Interest rate swaps	\$ 2	\$ 1	Net investment gains (losses)
Interest rate swaps in a foreign currency	16	34	Net investment gains (losses)
Interest rate caps and floors	(3)		Net investment gains (losses)
Credit default swaps related to securitization entities		2	Net investment gains (losses)
Equity index options	19	16	Net investment gains (losses)
Financial futures	(42)	(17)	Net investment gains (losses)
Equity return swaps		(5)	Net investment gains (losses)
Other foreign currency contracts	5	6	Net investment gains (losses)
Foreign currency swaps	8	8	Net investment gains (losses)
GMWB embedded derivatives	39	30	Net investment gains (losses)
Fixed index annuity embedded derivatives	(29)	(21)	Net investment gains (losses)
Indexed universal life embedded derivatives	3	2	Net investment gains (losses)
Total derivatives not designated as hedges	\$ 18	\$ 56	

(Amounts in millions)	Nine months ended		Classification of gain (loss) recognized in net income
	September 30, 2018	2017	
Interest rate swaps	\$ (1)	\$ 2	Net investment gains (losses)
Interest rate swaps in a foreign currency	25	60	Net investment gains (losses)
Interest rate caps and floors	(3)		Net investment gains (losses)
Credit default swaps related to securitization entities		6	Net investment gains (losses)
Equity index options	12	42	Net investment gains (losses)
Financial futures	(79)	(25)	Net investment gains (losses)
Equity return swaps	(4)	(19)	Net investment gains (losses)
Other foreign currency contracts	5	6	Net investment gains (losses)
Foreign currency swaps	(10)	13	Net investment gains (losses)
GMWB embedded derivatives	66	64	Net investment gains (losses)

Fixed index annuity embedded derivatives	(36)	(57)	Net investment gains (losses)
Indexed universal life embedded derivatives	10	5	Net investment gains (losses)
Total derivatives not designated as hedges	\$ (15)	\$ 97	

Derivative Counterparty Credit Risk

Most of our derivative arrangements with counterparties require the posting of collateral upon meeting certain net exposure thresholds. For derivatives related to securitization entities, there are no arrangements that require either party to provide collateral and the recourse of the derivative counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents additional information about derivative assets and liabilities subject to an enforceable master netting arrangement as of the dates indicated:

(Amounts in millions)	September 30, 2018			December 31, 2017		
	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives
Amounts presented in the balance sheet:						
Gross amounts recognized	\$ 251	\$ 179	\$ 72	\$ 278	\$ 47	\$ 231
Gross amounts offset in the balance sheet						
Net amounts presented in the balance sheet	251	179	72	278	47	231
Gross amounts not offset in the balance sheet:						
Financial instruments ⁽³⁾	(33)	(33)		(23)	(23)	
Collateral received	(148)		(148)	(170)		(170)
Collateral pledged		(521)	521		(288)	288
Over collateralization	9	375	(366)		264	(264)
Net amount	\$ 79	\$	\$ 79	\$ 85	\$	\$ 85

- (1) Included \$6 million and \$2 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of September 30, 2018 and December 31, 2017, respectively.
- (2) Included \$1 million of accrual on derivatives classified as other liabilities as of September 30, 2018. Does not include amounts related to embedded derivatives and derivatives related to securitization entities as of September 30, 2018 and December 31, 2017.
- (3) Amounts represent derivative assets and/or liabilities that are presented gross within the balance sheet but are held with the same counterparty where we have a master netting arrangement. This adjustment results in presenting the net asset and net liability position for each counterparty.

Except for derivatives related to securitization entities, several of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party's long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. Beginning in 2018, we have renegotiated with many of our counterparties to remove the credit downgrade provisions

from the master swap agreements. If the provisions defined in these agreements had been triggered as of September 30, 2018 and December 31, 2017, we could have been allowed to claim \$79 million and \$85 million, respectively. The chart above excludes embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

We actively responded to the risk in our derivatives portfolio arising from our counterparties' right to terminate their bilateral over-the-counter derivatives transactions with us following the downgrades of our life insurance subsidiaries by Moody's Investors Service, Inc. and A.M. Best Company, Inc. in February 2018 and by Standard & Poor's Financial Services, LLC in September 2018. As of September 30, 2018, no counterparties exercised their rights to terminate or revise the terms of their transactions with us.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Credit Derivatives*

We sell protection under single name credit default swaps in combination with purchasing a security to replicate characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for single name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction. Our remaining single name credit default swaps matured during the third quarter of 2018.

The following table sets forth our credit default swaps where we sell protection on single name reference entities and the fair values as of the dates indicated:

(Amounts in millions)	September 30, 2018			December 31, 2017		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Investment grade						
Matures in less than one year	\$	\$	\$	\$ 39	\$	\$
Total credit default swaps on single name reference entities	\$	\$	\$	\$ 39	\$	\$

(6) Fair Value of Financial Instruments

Assets and liabilities that are reflected in the accompanying unaudited condensed consolidated financial statements at fair value are not included in the following disclosure of fair value. Such items include cash and cash equivalents, short-term investments, investment securities, separate accounts, securities held as collateral and derivative instruments. Apart from certain of our borrowings and certain marketable securities, few of the instruments are actively traded and their fair values must often be determined using models. The fair value estimates are made at a specific point in time, based upon available market information and judgments about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument, nor do they consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following represents our estimated fair value of financial assets and liabilities that are not required to be carried at fair value as of the dates indicated:

(Amounts in millions)	Notional amount	Carrying amount	September 30, 2018			
			Total	Fair value		
				Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	\$ (1)	\$ 6,568	\$ 6,512	\$	\$	\$ 6,512
Restricted commercial mortgage loans	(1)	87	92			92
Other invested assets	(1)	194	195			195
Liabilities:						
Long-term borrowings	(1)	4,051	3,741		3,594	147
Non-recourse funding obligations	(1)	310	212			212
Borrowings related to securitization entities	(1)	20	20		20	
Investment contracts	(1)	13,317	13,599			13,599
Other firm commitments:						
Commitments to fund limited partnerships	423					
Commitments to fund bank loan investments	33					
Ordinary course of business lending commitments	141					

(Amounts in millions)	Notional amount	Carrying amount	December 31, 2017			
			Total	Fair value		
				Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	\$ (1)	\$ 6,341	\$ 6,573	\$	\$	\$ 6,573
Restricted commercial mortgage loans	(1)	107	116			116
Other invested assets	(1)	277	299			299
Liabilities:						
Long-term borrowings	(1)	4,224	3,725		3,566	159
Non-recourse funding obligations	(1)	310	201			201
Borrowings related to securitization entities	(1)	40	41		41	
Investment contracts	(1)	14,700	15,123		5	15,118
Other firm commitments:						
Commitments to fund limited partnerships	317					
Commitments to fund bank loan investments	18					
	168					

Ordinary course of business lending
commitments

(1) These financial instruments do not have notional amounts.

Recurring Fair Value Measurements

We have fixed maturity, short-term investments, equity securities, limited partnerships, derivatives, embedded derivatives, securities held as collateral, separate account assets and certain other financial instruments, which are carried at fair value. Below is a description of the valuation techniques and inputs used to determine fair value by class of instrument.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Limited partnerships

Limited partnerships are valued based on comparable market transactions, discounted future cash flows, quoted market prices and/or estimates using the most recent data available for the underlying instrument. We utilize the net asset value (NAV) of the underlying fund statements as a practical expedient for fair value.

Fixed maturity, short-term investments and equity securities

The fair value of fixed maturity, short-term investments and equity securities are estimated primarily based on information derived from third-party pricing services (pricing services), internal models and/or broker quotes, which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, a security is valued using that market information for similar securities, which is also a market approach. When market information is not available for a specific security or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including mortgage-backed or asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

We utilize certain third-party data providers when determining fair value. We consider information obtained from pricing services as well as broker quotes in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information. We also use various methods to obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received, including an understanding of the assumptions and inputs utilized to determine the appropriate fair value. For pricing services, we analyze the prices provided by our primary pricing services to other readily available pricing services and perform a detailed review of the assumptions and inputs from each pricing service to determine the appropriate fair value when pricing differences exceed certain thresholds. We evaluate changes in fair value that are greater than certain pre-defined thresholds each month to further aid in our review of the accuracy of fair value measurements and our understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed. A pricing committee provides additional oversight and guidance in the evaluation and review of the pricing methodologies used to value our investment portfolio.

In general, we first obtain valuations from pricing services. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for identical securities are not readily observable and these securities are not typically valued by pricing services. If prices

are unavailable from public pricing services, we obtain broker quotes. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quotes valuation is available, we determine fair value using internal models.

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service s

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

assumptions to determine if we agree with the service's derived price. When available, we also evaluate the prices sampled as compared to other public prices. If a variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

For private fixed maturity securities, we utilize an income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction and value all private fixed maturity securities at par that have less than 12 months to maturity. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. To evaluate the reasonableness of the internal model, we review a sample of private fixed maturity securities each month. In that review we compare the modeled prices to the prices of similar public securities in conjunction with analysis on current market indicators. If a pricing variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. At the end of each month, all internally modeled prices are compared to the prior month prices with an evaluation of all securities with a month-over-month change greater than a pre-defined threshold. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

For broker quotes, we consider the valuation methodology utilized by the third party and analyze a sample each month to assess reasonableness given then-current market conditions. Additionally, for broker quotes on certain structured securities, we validate prices received against other publicly available pricing sources. Broker quotes are typically based on an income approach given the lack of available market data. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we determine fair value using an income approach. We analyze a sample each month to assess reasonableness given then-current market conditions. We maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

A summary of the inputs used for our fixed maturity, short-term investments and equity securities based on the level in which instruments are classified is included below. We have combined certain classes of instruments together as the nature of the inputs is similar.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Level 1 measurements

Equity securities. The primary inputs to the valuation of exchange-traded equity securities include quoted prices for the identical instrument.

Short-term investments. Short-term investments primarily include commercial paper and other highly liquid debt instruments. The fair value of short-term investments classified as Level 1 is based on quoted prices for the identical instrument.

Separate account assets. The fair value of separate account assets is based on the quoted prices of the underlying fund investments and, therefore, represents Level 1 pricing.

Level 2 measurements

Fixed maturity securities

Third-party pricing services: In estimating the fair value of fixed maturity securities, approximately 91% of our portfolio is priced using third-party pricing sources as of September 30, 2018. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by third-party pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our third-party pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents a summary of the significant inputs used by our third-party pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of September 30, 2018:

(Amounts in millions)	Fair value	Primary methodologies	Significant inputs
U.S. government, agencies and government-sponsored enterprises	\$ 5,181	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread (OAS) to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions	\$ 2,742	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	\$ 2,274	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	\$ 24,517	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine (TRACE) reports
Non-U.S. corporate	\$ 10,219	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
Residential mortgage-backed	\$ 3,178	OAS-based models, To Be Announced pricing models, single factor binomial models,	Prepayment and default assumptions, aggregation of bonds with similar characteristics, including collateral type, vintage,

		internally priced	tranche type, weighted-average life, weighted-average loan age, issuer program and delinquency ratio, pay up and pay down factors, TRACE reports
Commercial mortgage-backed	\$ 3,081	Multi-dimensional attribute-based modeling systems, pricing matrix, spread matrix priced to swap curves, Trepp commercial mortgage-backed securities analytics model	Credit risk, interest rate risk, prepayment speeds, new issue data, collateral performance, origination year, tranche type, original credit ratings, weighted-average life, cash flows, spreads derived from broker quotes, bid side prices, spreads to daily updated swaps curves, TRACE reports
Other asset-backed	\$ 2,899	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models	Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Internal models: A portion of our non-U.S. government, U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities were \$15 million, \$1,103 million and \$587 million, respectively, as of September 30, 2018. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

Equity securities. The primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active.

Securities lending collateral

The fair value of securities held as collateral is primarily based on Level 2 inputs from market information for the collateral that is held on our behalf by the custodian. We determine fair value after considering prices obtained by third-party pricing services.

Short-term investments

The fair value of short-term investments classified as Level 2 is determined after considering prices obtained by third-party pricing services.

Level 3 measurements

Fixed maturity securities

Internal models: A portion of our state and political subdivisions, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities where there are no external ratings of the instrument and include a significant unobservable input. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and

volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was \$3,228 million as of September 30, 2018.

Broker quotes: A portion of our state and political subdivisions, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by third-party

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was \$380 million as of September 30, 2018.

Equity securities. The primary inputs to the valuation include broker quotes where the underlying inputs are unobservable and for internal models, structure of the security and issuer rating.

Restricted other invested assets related to securitization entities

We previously held trading securities related to securitization entities that were classified as restricted other invested assets and were carried at fair value. The trading securities represented asset-backed securities. In 2017, these trading securities were sold as we repositioned these assets in connection with the maturity of the associated liabilities. The valuation for trading securities was determined using a market approach and/or an income approach depending on the availability of information. For certain highly rated asset-backed securities, there was observable market information for transactions of the same or similar instruments, which was provided to us by a third-party pricing service and was classified as Level 2. For certain securities that are not actively traded, we determined fair value after considering third-party broker provided prices or discounted expected cash flows using current yields for similar securities and classified these valuations as Level 3.

GMWB embedded derivatives

We are required to bifurcate an embedded derivative for certain features associated with annuity products and related reinsurance agreements where we provide a GMWB to the policyholder and are required to record the GMWB embedded derivative at fair value. The valuation of our GMWB embedded derivative is based on an income approach that incorporates inputs such as forward interest rates, equity index volatility, equity index and fund correlation, and policyholder assumptions such as utilization, lapse and mortality. In addition to these inputs, we also consider risk and expense margins when determining the projected cash flows that would be determined by another market participant. While the risk and expense margins are considered in determining fair value, these inputs do not have a significant impact on the valuation. We determine fair value using an internal model based on the various inputs noted above. The resulting fair value measurement from the model is reviewed by the product actuarial, risk and finance professionals each reporting period with changes in fair value also being compared to changes in derivatives and other instruments used to mitigate changes in fair value from certain market risks, such as equity index volatility and interest rates.

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of September 30, 2018 and December 31, 2017, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of \$49 million and \$63 million, respectively.

To determine the appropriate discount rate to reflect the non-performance risk of the GMWB liabilities, we evaluate the non-performance risk in our liabilities based on a hypothetical exit market transaction as there is no exit market for

these types of liabilities. A hypothetical exit market can be viewed as a hypothetical transfer of the liability to another similarly rated insurance company which would closely resemble a reinsurance transaction. Another hypothetical exit market transaction can be viewed as a hypothetical transaction from the perspective of the GMWB policyholder. In determining the appropriate discount rate to incorporate non-performance risk of the GMWB liabilities, we also considered the impacts of state guarantees embedded in the related insurance product as a form of inseparable third-party guarantee. We believe that a hypothetical exit market participant would use a similar discount rate as described above to value the liabilities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For equity index volatility, we determine the projected equity market volatility using both historical volatility and projected equity market volatility with more significance being placed on projected near-term volatility and recent historical data. Given the different attributes and market characteristics of GMWB liabilities compared to equity index options in the derivative market, the equity index volatility assumption for GMWB liabilities may be different from the volatility assumption for equity index options, especially for the longer dated points on the curve.

Equity index and fund correlations are determined based on historical price observations for the fund and equity index.

For policyholder assumptions, we use our expected lapse, mortality and utilization assumptions and update these assumptions for our actual experience, as necessary. For our lapse assumption, we adjust our base lapse assumption by policy based on a combination of the policyholder's current account value and GMWB benefit.

We classify the GMWB valuation as Level 3 based on having significant unobservable inputs, with equity index volatility and non-performance risk being considered the more significant unobservable inputs. As equity index volatility increases, the fair value of the GMWB liabilities will increase. Any increase in non-performance risk would increase the discount rate and would decrease the fair value of the GMWB liability. Additionally, we consider lapse and utilization assumptions to be significant unobservable inputs. An increase in our lapse assumption would decrease the fair value of the GMWB liability, whereas an increase in our utilization rate would increase the fair value.

Fixed index annuity embedded derivatives

We have fixed indexed annuity products where interest is credited to the policyholder's account balance based on equity index changes. This feature is required to be bifurcated as an embedded derivative and recorded at fair value. Fair value is determined using an income approach where the present value of the excess cash flows above the guaranteed cash flows is used to determine the value attributed to the equity index feature. The inputs used in determining the fair value include policyholder behavior (lapses and withdrawals), near-term equity index volatility, expected future interest credited, forward interest rates and an adjustment to the discount rate to incorporate non-performance risk and risk margins. As a result of our assumptions for policyholder behavior and expected future interest credited being considered significant unobservable inputs, we classify these instruments as Level 3. As lapses and withdrawals increase, the value of our embedded derivative liability will decrease. As expected future interest credited decreases, the value of our embedded derivative liability will decrease.

Indexed universal life embedded derivatives

We have indexed universal life products where interest is credited to the policyholder's account balance based on equity index changes. This feature is required to be bifurcated as an embedded derivative and recorded at fair value. Fair value is determined using an income approach where the present value of the excess cash flows above the guaranteed cash flows is used to determine the value attributed to the equity index feature. The inputs used in determining the fair value include policyholder behavior (lapses and withdrawals), near-term equity index volatility,

expected future interest credited, forward interest rates and an adjustment to the discount rate to incorporate non-performance risk and risk margins. As a result of our assumptions for policyholder behavior and expected future interest credited being considered significant unobservable inputs, we classify these instruments as Level 3. As lapses and withdrawals increase, the value of our embedded derivative liability will decrease. As expected future interest credited decreases, the value of our embedded derivative liability will decrease.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Borrowings related to securitization entities

We record certain borrowings related to securitization entities at fair value. The fair value of these borrowings is determined using either a market approach or income approach, depending on the instrument and availability of market information. Given the unique characteristics of the securitization entities that issued these borrowings as well as the lack of comparable instruments, we determine fair value considering the valuation of the underlying assets held by the securitization entities and any derivatives, as well as any unique characteristics of the borrowings that may impact the valuation. After considering all relevant inputs, we determine fair value of the borrowings using the net valuation of the underlying assets and derivatives that are backing the borrowings. Accordingly, these instruments are classified as Level 3. Increases in the valuation of the underlying assets or decreases in the derivative liabilities will result in an increase in the fair value of these borrowings.

Derivatives

We consider counterparty collateral arrangements and rights of set-off when evaluating our net credit risk exposure to our derivative counterparties. Accordingly, we are permitted to include consideration of these arrangements when determining whether any incremental adjustment should be made for both the counterparty's and our non-performance risk in measuring fair value for our derivative instruments. As a result of these counterparty arrangements, we determined that any adjustment for credit risk would not be material and we have not recorded any incremental adjustment for our non-performance risk or the non-performance risk of the derivative counterparty for our derivative assets or liabilities. We determine fair value for our derivatives using an income approach with internal models based on relevant market inputs for each derivative instrument. We also compare the fair value determined using our internal model to the valuations provided by our derivative counterparties with any significant differences or changes in valuation being evaluated further by our derivatives professionals that are familiar with the instrument and market inputs used in the valuation.

Interest rate swaps. The valuation of interest rate swaps is determined using an income approach. The primary input into the valuation represents the forward interest rate swap curve, which is generally considered an observable input, and results in the derivative being classified as Level 2. For certain interest rate swaps, the inputs into the valuation also include the total returns of certain bonds that would primarily be considered an observable input and result in the derivative being classified as Level 2.

Interest rate swaps in a foreign currency. The valuation of interest rate swaps in a foreign currency is determined using an income approach. The primary inputs into the valuation represents the forward interest rate swap curve and foreign currency, which are generally considered observable inputs, and results in the derivative being classified as Level 2.

Interest rate swaps related to securitization entities. The valuation of interest rate swaps related to securitization entities was determined using an income approach. The primary input into the valuation represented the forward interest rate swap curve, which was generally considered an observable input, and resulted in the derivative being

classified as Level 2.

Interest rate caps and floors. The valuation of interest rate caps and floors is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, forward interest rate volatility and time value component associated with the optionality in the derivative which are generally considered observable inputs and results in the derivatives being classified as Level 2.

Inflation indexed swaps. The valuation of inflation indexed swaps was determined using an income approach. The primary inputs into the valuation represented the forward interest rate swap curve, the current

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

consumer price index and the forward consumer price index curve, which were generally considered observable inputs, and resulted in the derivative being classified as Level 2.

Foreign currency swaps. The valuation of foreign currency swaps is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve and foreign currency exchange rates, both of which are considered an observable input, and results in the derivative being classified as Level 2.

Credit default swaps. We have single name credit default swaps and we previously sold protection under index tranche credit default swaps. For single name credit default swaps, we utilize an income approach to determine fair value based on using current market information for the credit spreads of the reference entity, which is considered observable inputs based on the reference entities of our derivatives and results in these derivatives being classified as Level 2. For index tranche credit default swaps, we utilized an income approach that utilized current market information related to credit spreads and expected defaults and losses associated with the reference entities that comprised the respective index associated with each derivative. There were significant unobservable inputs associated with the timing and amount of losses from the reference entities as well as the timing or amount of losses, if any, that were absorbed by our tranche. Accordingly, the index tranche credit default swaps were classified as Level 3. As credit spreads widened for the underlying issuers comprising the index, the change in our valuation of these credit default swaps were unfavorable.

Credit default swaps related to securitization entities. Credit default swaps related to securitization entities represented customized index tranche credit default swaps and were valued using a similar methodology as described above for index tranche credit default swaps. We determined fair value of these credit default swaps after considering both the valuation methodology described above as well as the valuation provided by the derivative counterparty. In addition to the valuation methodology and inputs described for index tranche credit default swaps, these customized credit default swaps contained a feature that permitted the securitization entity to provide the par value of underlying assets in the securitization entity to settle any losses under the credit default swap. The valuation of this settlement feature was dependent upon the valuation of the underlying assets and the timing and amount of any expected loss on the credit default swap, which was considered a significant unobservable input. Accordingly, these customized index tranche credit default swaps related to securitization entities were classified as Level 3. As credit spreads widened for the underlying issuers comprising the customized index, the change in our valuation of these credit default swaps were unfavorable.

Equity index options. We have equity index options associated with various equity indices. The valuation of equity index options is determined using an income approach. The primary inputs into the valuation represent forward interest rates, equity index volatility, equity index and time value component associated with the optionality in the derivative, which are considered significant unobservable inputs in most instances. The equity index volatility surface is determined based on market information that is not readily observable and is developed based upon inputs received from several third-party sources. Accordingly, these options are classified as Level 3. As equity index volatility increases, our valuation of these options changes favorably.

Financial futures. The fair value of financial futures is based on the closing exchange prices. Accordingly, these financial futures are classified as Level 1. The period end valuation is zero as a result of settling the margins on these contracts on a daily basis.

Equity return swaps. The valuation of equity return swaps is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve and underlying equity index values, which are generally considered observable inputs, and results in the derivative being classified as Level 2.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Forward bond purchase commitments. The valuation of forward bond purchase commitments is determined using an income approach. The primary input into the valuation represents the current bond prices and interest rates, which are generally considered an observable input, and results in the derivative being classified as Level 2.

Other foreign currency contracts. We have certain foreign currency options classified as other foreign currency contracts. The valuation of foreign currency options is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, foreign currency exchange rates, forward interest rate, foreign currency exchange rate volatility, foreign equity index volatility and time value component associated with the optionality in the derivative. As a result of the significant unobservable inputs associated with the forward interest rate, foreign currency exchange rate volatility and foreign equity index volatility inputs, the derivative is classified as Level 3. As foreign currency exchange rate volatility and foreign equity index volatility increases, the change in our valuation of these options will be favorable for purchase options and unfavorable for options sold. We also have foreign currency forward contracts where the valuation is determined using an income approach. The primary inputs into the valuation represent the forward foreign currency exchange rates, which are generally considered observable inputs and results in the derivative being classified as Level 2.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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

(Amounts in millions)	September 30, 2018				NAV (1)
	Total	Level 1	Level 2	Level 3	
Assets					
Investments:					
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 5,181	\$	\$ 5,181	\$	\$
State and political subdivisions	2,795		2,742	53	
Non-U.S. government	2,289		2,289		
U.S. corporate:					
Utilities	4,711		4,080	631	
Energy	2,336		2,212	124	
Finance and insurance	6,352		5,883	469	
Consumer non-cyclical	4,704		4,626	78	
Technology and communications	2,775		2,763	12	
Industrial	1,185		1,145	40	
Capital goods	2,335		2,217	118	
Consumer cyclical	1,573		1,333	240	
Transportation	1,238		1,183	55	
Other	329		178	151	
Total U.S. corporate	27,538		25,620	1,918	
Non-U.S. corporate:					
Utilities	1,020		697	323	
Energy	1,379		1,190	189	
Finance and insurance	2,537		2,388	149	
Consumer non-cyclical	721		614	107	
Technology and communications	1,097		1,071	26	
Industrial	933		854	79	
Capital goods	607		442	165	
Consumer cyclical	534		487	47	
Transportation	720		519	201	
Other	2,625		2,544	81	

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Total non-U.S. corporate	12,173		10,806	1,367	
Residential mortgage-backed	3,222		3,178	44	
Commercial mortgage-backed	3,156		3,081	75	
Other asset-backed	3,050		2,899	151	
Total fixed maturity securities	59,404		55,796	3,608	
Equity securities	783	664	69	50	
Other invested assets:					
Derivative assets:					
Interest rate swaps	36		36		
Interest rate swaps in a foreign currency	116		116		
Interest rate caps and floors	3		3		
Foreign currency swaps	7		7		
Equity index options	79			79	
Other foreign currency contracts	4		4		
Total derivative assets	245		166	79	
Securities lending collateral	166		166		
Short-term investments	359		359		
Limited partnerships	286				286
Total other invested assets	1,056		691	79	286
Reinsurance recoverable ⁽²⁾	11			11	
Separate account assets	6,745	6,745			
Total assets	\$ 67,999	\$ 7,409	\$ 56,556	\$ 3,748	\$ 286

(1) Limited partnerships that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

(Amounts in millions)	Total	December 31, 2017		
		Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	\$ 5,548	\$	\$ 5,547	\$ 1
State and political subdivisions	2,926		2,889	37
Non-U.S. government	2,233		2,233	
U.S. corporate:				
Utilities	4,998		4,424	574
Energy	2,458		2,311	147
Finance and insurance	6,528		5,902	626
Consumer non-cyclical	4,831		4,750	81
Technology and communications	2,845		2,772	73
Industrial	1,346		1,307	39
Capital goods	2,355		2,234	121
Consumer cyclical	1,605		1,343	262
Transportation	1,291		1,231	60
Other	379		210	169
Total U.S. corporate	28,636		26,484	2,152
Non-U.S. corporate:				
Utilities	1,017		674	343
Energy	1,490		1,314	176
Finance and insurance	2,735		2,574	161
Consumer non-cyclical	712		588	124
Technology and communications	982		953	29
Industrial	1,044		928	116
Capital goods	645		454	191
Consumer cyclical	540		486	54
Transportation	721		551	170
Other	2,725		2,673	52
Total non-U.S. corporate	12,611		11,195	1,416
Residential mortgage-backed	4,057		3,980	77
Commercial mortgage-backed	3,446		3,416	30
Other asset-backed	3,068		2,831	237

Total fixed maturity securities	62,525		58,575	3,950
Equity securities	820	696	80	44
Other invested assets:				
Derivative assets:				
Interest rate swaps	74		74	
Interest rate swaps in a foreign currency	105		105	
Foreign currency swaps	12		12	
Equity index options	80			80
Other foreign currency contracts	5		5	
Total derivative assets	276		196	80
Securities lending collateral	268		268	
Short-term investments	902	107	795	
Total other invested assets	1,446	107	1,259	80
Reinsurance recoverable ⁽¹⁾	14			14
Separate account assets	7,230	7,230		
Total assets	\$72,035	\$8,033	\$59,914	\$4,088

⁽¹⁾ Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers between levels at the beginning fair value for the reporting period in which the changes occur. Given the types of assets classified as Level 1, which primarily represents mutual fund investments, we typically do not have any transfers between Level 1 and Level 2 measurement categories and did not have any such transfers during any period presented.

Our assessment of whether or not there were significant unobservable inputs related to fixed maturity securities was based on our observations obtained through the course of managing our investment portfolio, including interaction with other market participants, observations related to the availability and consistency of pricing and/or rating, and understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from third-party pricing sources to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	Beginning balance as of July 1, 2018	Total realized and unrealized gains (losses)				Transfer into Level 3		Transfer out of Level 3 ⁽¹⁾		Ending balance as of September 30, 2018	Total gains (losses) included in net income attributable to assets still held
		Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Level 3	Level 3 ⁽¹⁾		
Fixed maturity securities:											
State and political subdivisions											
	\$ 52	\$ 1	\$ 11	\$	\$	\$	\$	\$	\$ (11)	\$ 53	\$ 1
U.S. corporate:											
Utilities	622		(11)	20						631	
Energy	138						(14)			124	
Finance and insurance	458		(2)	18			(2)	(3)		469	
Consumer non-cyclical	79		(1)							78	
Technology and communications	12		(1)	1			7	(7)		12	
Industrial	40									40	
Capital goods	119		(1)							118	
Consumer cyclical	254		(1)		(1)		(5)	(7)		240	
Transportation	56						(1)			55	
Other	153		(1)				(1)			151	
Total U.S. corporate	1,931		(18)	39	(1)		(23)	7	(17)	1,918	
Non-U.S. corporate:											
Utilities	333		(3)					(7)		323	
Energy	175						(11)	25		189	
Finance and insurance	150	1	(2)							149	1

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Consumer non-cyclical	108					(1)				107	
Technology and communications	16			10						26	
Industrial	105		(1)					(25)		79	
Capital goods	166		(1)							165	
Consumer cyclical	48		(1)							47	
Transportation	203		(2)	16			1	(17)		201	
Other	82		(1)							81	
Total non-U.S. corporate	1,386	1	(11)	26		(12)	26	(49)		1,367	1
Residential mortgage-backed	34		(1)					11		44	
Commercial mortgage-backed	44			18				13		75	
Other asset-backed	166			25		(18)	6	(28)		151	
Total fixed maturity securities	3,613	2	(19)	108	(1)	(53)	63	(105)		3,608	2
Equity securities	46			5	(1)					50	
Other invested assets:											
Derivative assets:											
Equity index options	70	19		15		(25)				79	14
Total derivative assets	70	19		15		(25)				79	14
Total other invested assets	70	19		15		(25)				79	14
Reinsurance recoverable ⁽²⁾	12	(2)				1				11	(2)
Total Level 3 assets	\$ 3,741	\$ 19	\$ (19)	\$ 128	\$ (2)	\$ 1	\$ (78)	\$ 63	\$ (105)	\$ 3,748	\$ 14

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities.

(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Total realized and unrealized gains (losses)		Transfer out of Level 3 ⁽¹⁾						Total gains (losses) included in net income attributable to assets still held		
	Beginning balance as of July 1, 2017	Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3 ⁽¹⁾	Ending balance as of September 30, 2017	to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	\$ 1	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1	\$
State and political subdivisions	37	1	(1)							37	1
U.S. corporate:											
Utilities	638			26			(2)			662	
Energy	160						(2)			158	
Finance and insurance	861	3	(52)	22	(14)		(157)	8	(1)	670	2
Consumer non-cyclical	122		1	4						127	
Technology and communications	58	1	(3)				(1)		(3)	52	1
Industrial	61								(14)	47	
Capital goods	118	1					(1)			118	1
Consumer cyclical	266						(2)		(2)	262	
Transportation	100	16	(10)				(45)			61	
Other	176				(4)		(2)			170	
Total U.S. corporate	2,560	21	(64)	52	(18)		(212)	8	(20)	2,327	4
Non-U.S. corporate:											
Utilities	359									359	
Energy	177		1				(1)			177	
Finance and insurance	172	1	1				(5)			169	
Consumer non-cyclical	129									129	
	48	1	1		(21)					29	

Technology and communications										
Industrial	112			13			14			139
Capital goods	149		1							150
Consumer cyclical	67						2			69
Transportation	190		1			(10)				181
Other	41	(2)	1		(2)		11			49
Total non-U.S. corporate	1,444		6	13	(23)		(16)	27		1,451
Residential mortgage-backed										
	73			22			(1)		(8)	86
Commercial mortgage-backed										
	52	(1)	(2)	14					(41)	22
Other asset-backed	150	(1)	1	52			(5)	44	(16)	225
Total fixed maturity securities										
	4,317	20	(60)	153	(41)		(234)	79	(85)	4,149
Equity securities	48				(1)				(3)	44
Other invested assets:										
Derivative assets:										
Equity index options	81	16		15			(31)			81
Total derivative assets	81	16		15			(31)			81
Total other invested assets	81	16		15			(31)			81
Reinsurance recoverable ⁽²⁾										
	15	(1)								14
Total Level 3 assets	\$ 4,461	\$ 35	\$ (60)	\$ 168	\$ (42)	\$	\$ (265)	\$ 79	\$ (88)	\$ 4,288
										\$ 17

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities.

(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Beginning balance as of January 1, 2018		Total realized and unrealized gains (losses) included in net income attributable to assets held					Ending balance as of September 30, 2018			
(Amounts in millions)	2018	income	OCI	Purchases	Sales	Issuances	Settlements	Level 3	Level 3 ⁽¹⁾	2018	held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	\$ 1	\$	\$	\$	\$	\$	\$ (1)	\$	\$	\$	\$
State and political subdivisions	37	2	7					18	(11)	53	2
U.S. corporate:											
Utilities	574	(1)	(36)	89	(12)		(4)	25	(4)	631	
Energy	147		(5)	22			(33)		(7)	124	
Finance and insurance	626	1	(69)	44			(112)		(21)	469	1
Consumer non-cyclical	81		(3)							78	
Technology and communications	73		(6)	5			(60)	7	(7)	12	
Industrial	39		1							40	
Capital goods	121		(10)	24			(10)		(7)	118	
Consumer cyclical	262		(11)	17	(4)		(17)		(7)	240	
Transportation	60		(1)				(4)			55	
Other	169		(2)		(10)		(6)			151	
Total U.S. corporate	2,152		(142)	201	(26)		(246)	32	(53)	1,918	1

Non-U.S. corporate:

Utilities	343		(16)	22		(20)	15	(21)	323		
Energy	176		(6)	23		(29)	25		189		
Finance and insurance	161	3	(13)	1		(2)		(1)	149	3	
Consumer non-cyclical	124		(4)			(13)			107		
Technology and communications	29			10		(13)			26		
Industrial	116		(5)	3		(10)		(25)	79		
Capital goods	191	1	(6)			(21)			165	1	
Consumer cyclical	54		(3)		(1)	(3)			47		
Transportation	170		(8)	38			18	(17)	201		
Other	52		(4)	33					81		
Total non-U.S. corporate	1,416	4	(65)	130	(1)	(111)	58	(64)	1,367	4	
Residential											
mortgage-backed	77		(1)	29		(1)	11	(71)	44		
Commercial											
mortgage-backed	30		(2)	53			26	(32)	75		
Other asset-backed	237		(3)	86		(74)	54	(149)	151		
Total fixed maturity securities	3,950	6	(206)	499	(27)	(433)	199	(380)	3,608	7	
Equity securities	44			10	(4)				50		
Other invested assets:											
Derivative assets:											
Equity index options	80	12		44		(57)			79	10	
Total derivative assets	80	12		44		(57)			79	10	
Total other invested assets	80	12		44		(57)			79	10	
Reinsurance recoverable ⁽²⁾	14	(5)				2			11	(5)	
Total Level 3 assets	\$ 4,088	\$ 13	\$ (206)	\$ 553	\$ (31)	\$ 2	\$ (490)	\$ 199	\$ (380)	\$ 3,748	\$ 12

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities.

(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Beginning balance as of January 1, 2017		Total realized and unrealized gains (losses) included in income		Ending balance as of September 30, 2017		Total gains (losses) included in net income				
	as included in net income	OCIP	Purchases	Sales	Issues	Settlements	Level 3	Level 3 ⁽¹⁾	as of September 30, 2017	assets still held	
(Amounts in millions)	2017	income	OCIP	Purchases	Sales	Issues	Settlements	Level 3	Level 3 ⁽¹⁾	2017	held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	\$ 2	\$	\$	\$	\$	\$	\$ (1)	\$	\$	\$ 1	\$
State and political subdivisions	37	2	(2)							37	2
U.S. corporate:											
Utilities	576		20	70		(4)	30	(30)		662	
Energy	210	(1)	6		(10)	(32)	1	(16)		158	(1)
Finance and insurance	786	11	(1)	75	(31)	(163)	8	(15)		670	10
Consumer non-cyclical	121		2	4						127	
Technology and communications	54	2	3	14		(1)		(20)		52	2
Industrial	48			13				(14)		47	
Capital goods	152	1	3			(1)		(37)		118	1
Consumer cyclical	258		9	2		(5)		(2)		262	
Transportation	139	17	(5)			(48)		(42)		61	1
Other	143		1		(4)	(7)	37			170	
Total U.S. corporate	2,487	30	38	178	(45)	(261)	76	(176)		2,327	13
Non-U.S. corporate:											
Utilities	386		5	30				(62)		359	
Energy	206		6		(1)	(1)		(33)		177	
Finance and insurance	182	4	9	4		(30)				169	2
Consumer non-cyclical	139		2			(12)				129	

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Technology and communications	67	1	1		(21)		(19)			29	
Industrial	109		3	13				14		139	
Capital goods	169		3				(15)		(7)	150	
Consumer cyclical	69						(2)	2		69	
Transportation	181		4	6			(10)	11	(11)	181	
Other	25	(2)	2	15	(2)			11		49	
Total non-U.S. corporate	1,533	3	35	68	(24)		(89)	38	(113)	1,451	2
Residential mortgage-backed	43		1	26			(2)	26	(8)	86	
Commercial mortgage-backed	54	(2)	4	23	(9)				(48)	22	
Other asset-backed	145	(8)	11	116	(35)		(12)	58	(50)	225	
Total fixed maturity securities	4,301	25	87	411	(113)		(365)	198	(395)	4,149	17
Equity securities	47			1	(1)				(3)	44	
Other invested assets:											
Derivative assets:											
Equity index options	72	42		36			(69)			81	21
Other foreign currency contracts	3	(3)									(2)
Total derivative assets	75	39		36			(69)			81	19
Total other invested assets	75	39		36			(69)			81	19
Restricted other invested assets related to securitization entities											
Reinsurance recoverable ⁽²⁾	131				(131)						
	16	(3)				1				14	(3)
Total Level 3 assets	\$ 4,570	\$ 61	\$ 87	\$ 448	\$ (245)	\$ 1	\$ (434)	\$ 198	\$ (398)	\$ 4,288	\$ 33

(1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities.

(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents the gains and losses included in net income from assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the periods indicated:

(Amounts in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Total realized and unrealized gains (losses) included in net income:				
Net investment income	\$ 2	\$ 7	\$ 7	\$ 22
Net investment gains (losses)	17	28	6	39
Total	\$ 19	\$ 35	\$ 13	\$ 61
Total gains (losses) included in net income attributable to assets still held:				
Net investment income	\$ 2	\$ 5	\$ 7	\$ 18
Net investment gains (losses)	12	12	5	15
Total	\$ 14	\$ 17	\$ 12	\$ 33

The amount presented for unrealized gains (losses) included in net income for available-for-sale securities represents impairments and accretion on certain fixed maturity securities.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table presents a summary of the significant unobservable inputs used for certain asset fair value measurements that are based on internal models and classified as Level 3 as of September 30, 2018:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average
Fixed maturity securities:					
U.S. corporate:					
Utilities	Internal models	\$ 626	Credit spreads	66bps-231bps	138bps
Energy	Internal models	92	Credit spreads	73bps-269bps	149bps
Finance and insurance	Internal models	455	Credit spreads	70bps-224bps	145bps
Consumer non-cyclical	Internal models	78	Credit spreads	85bps-167bps	119bps
Technology and communications	Internal models	12	Credit spreads	151bps	Not applicable
Industrial	Internal models	40	Credit spreads	104bps-193bps	144bps
Capital goods	Internal models	118	Credit spreads	89bps-250bps	128bps
Consumer cyclical	Internal models	200	Credit spreads	68bps-214bps	127bps
Transportation	Internal models	48	Credit spreads	57bps-114bps	85bps
Other	Internal models	151	Credit spreads	70bps-117bps	82bps
Total U.S. corporate	Internal models	\$ 1,820	Credit spreads	57bps-269bps	132bps
Non-U.S. corporate:					
Utilities	Internal models	\$ 323	Credit spreads	75bps-174bps	120bps
Energy	Internal models	177	Credit spreads	89bps-240bps	132bps
Finance and insurance	Internal models	142	Credit spreads	68bps-210bps	126bps
Consumer non-cyclical	Internal models	107	Credit spreads	57bps-161bps	121bps
Technology and communications	Internal models	26	Credit spreads	114bps-161bps	147bps
Industrial	Internal models	79	Credit spreads	104bps-250bps	137bps
Capital goods	Internal models	165	Credit spreads	89bps-250bps	146bps
Consumer cyclical	Internal models	23	Credit spreads	77bps-89bps	84bps
Transportation	Internal models	181	Credit spreads	73bps-214bps	125bps
Other	Internal models	81	Credit spreads	107bps-222bps	156bps
Total non-U.S. corporate	Internal models	\$ 1,304	Credit spreads	57bps-250bps	130bps

Derivative assets:

	Discounted cash		Equity index		
Equity index options	flows	\$ 79	volatility	6%-42%	18%

Certain classes of instruments classified as Level 3 are excluded above as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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

(Amounts in millions)	Total	September 30, 2018		
		Level 1	Level 2	Level 3
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives ⁽¹⁾	\$ 201	\$	\$	\$ 201
Fixed index annuity embedded derivatives	446			446
Indexed universal life embedded derivatives	13			13
Total policyholder account balances	660			660
Derivative liabilities:				
Interest rate swaps	155		155	
Foreign currency swaps	3		3	
Equity return swaps	1		1	
Other foreign currency contracts	19		19	
Total derivative liabilities	178		178	
Total liabilities	\$ 838	\$	\$ 178	\$ 660

⁽¹⁾ Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.

(Amounts in millions)	Total	December 31, 2017		
		Level 1	Level 2	Level 3
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives ⁽¹⁾	\$ 250	\$	\$	\$ 250
Fixed index annuity embedded derivatives	419			419
Indexed universal life embedded derivatives	14			14
Total policyholder account balances	683			683

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-Q

Derivative liabilities:		
Interest rate swaps	25	25
Equity return swaps	2	2
Other foreign currency contracts	20	20
Total derivative liabilities	47	47
Total liabilities	\$	