

GENWORTH FINANCIAL INC
Form 10-Q
May 01, 2019
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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 March 31, 2019

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 Incorporation or Organization)	80-0873306 (I.R.S. Employer 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 and posted 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 and post 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 April 24, 2019, 503,314,344 shares of Class A Common Stock, par value \$0.001 per share, were outstanding.

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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)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 61,360	\$ 59,661
Equity securities, at fair value	635	655
Commercial mortgage loans (\$59 and \$62 are restricted as of March 31, 2019 and December 31, 2018, respectively, related to a securitization entity)	6,988	6,749
Policy loans	1,994	1,861
Other invested assets	1,208	1,188
Total investments	72,185	70,114
Cash, cash equivalents and restricted cash	2,221	2,177
Accrued investment income	726	675
Deferred acquisition costs	2,219	3,263
Intangible assets and goodwill	265	347
Reinsurance recoverable	17,257	17,278
Other assets	532	474
Deferred tax asset	573	736
Separate account assets	6,210	5,859
Total assets	\$ 102,188	\$ 100,923
Liabilities and equity		
Liabilities:		
Future policy benefits	\$ 38,369	\$ 37,940
Policyholder account balances	22,651	22,968
Liability for policy and contract claims	10,536	10,379
Unearned premiums	3,482	3,546
Other liabilities	1,682	1,682
Non-recourse funding obligations	311	311
Long-term borrowings	4,035	4,025
Deferred tax liability	30	24
Separate account liabilities	6,210	5,859

Total liabilities	87,306	86,734
Commitments and contingencies		
Equity:		
Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 591 million and 589 million shares issued as of March 31, 2019 and December 31, 2018, respectively; 503 million and 501 million shares outstanding as of March 31, 2019 and December 31, 2018, respectively	1	1
Additional paid-in capital	11,989	11,987
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	932	585
Net unrealized gains (losses) on other-than-temporarily impaired securities	11	10
Net unrealized investment gains (losses)	943	595
Derivatives qualifying as hedges	1,850	1,781
Foreign currency translation and other adjustments	(301)	(332)
Total accumulated other comprehensive income (loss)	2,492	2,044
Retained earnings	1,292	1,118
Treasury stock, at cost (88 million shares as of March 31, 2019 and December 31, 2018)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	13,074	12,450
Noncontrolling interests	1,808	1,739
Total equity	14,882	14,189
Total liabilities and equity	\$ 102,188	\$ 100,923

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended	
	March 31,	
	2019	2018
Revenues:		
Premiums	\$ 1,114	\$ 1,140
Net investment income	829	804
Net investment gains (losses)	74	(31)
Policy fees and other income	187	202
Total revenues	2,204	2,115
Benefits and expenses:		
Benefits and other changes in policy reserves	1,301	1,311
Interest credited	147	156
Acquisition and operating expenses, net of deferrals	251	240
Amortization of deferred acquisition costs and intangibles	91	104
Interest expense	72	76
Total benefits and expenses	1,862	1,887
Income before income taxes	342	228
Provision for income taxes	112	63
Net income	230	165
Less: net income attributable to noncontrolling interests	56	53
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 174	\$ 112
Net income available to Genworth Financial, Inc.'s common stockholders per share:		
Basic	\$ 0.35	\$ 0.22
Diluted	\$ 0.34	\$ 0.22
Weighted-average common shares outstanding:		
Basic	501.2	499.6
Diluted	508.6	502.7

Supplemental disclosures:

Total other-than-temporary impairments	\$		\$	
Portion of other-than-temporary impairments included in other comprehensive income (loss)				
Net other-than-temporary impairments				
Other investments gains (losses)		74		(31)
Total net investment gains (losses)	\$	74	\$	(31)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended	
	March 31,	
	2019	2018
Net income	\$ 230	\$ 165
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	379	(341)
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	
Derivatives qualifying as hedges	69	(152)
Foreign currency translation and other adjustments	54	(87)
Total other comprehensive income (loss)	503	(580)
Total comprehensive income (loss)	733	(415)
Less: comprehensive income attributable to noncontrolling interests	111	4
Total comprehensive income (loss) available to Genworth Financial, Inc.'s common stockholders	\$ 622	\$ (419)

See Notes to Condensed Consolidated Financial Statements

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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, 2018	\$ 1	\$ 11,987	\$ 2,044	\$ 1,118	\$ (2,700)	\$ 12,450	\$ 1,739	\$ 14,189
Repurchase of subsidiary shares							(12)	(12)
Comprehensive income:								
Net income				174		174	56	230
Other comprehensive income, net of taxes			448			448	55	503
Total comprehensive income						622	111	733
Dividends to noncontrolling interests							(28)	(28)
Stock-based compensation expense and exercises and other		2				2	(2)	
Balances as of March 31, 2019	\$ 1	\$ 11,989	\$ 2,492	\$ 1,292	\$ (2,700)	\$ 13,074	\$ 1,808	\$ 14,882
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							(36)	(36)
Comprehensive income (loss):								
Net income				112		112	53	165

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Other comprehensive loss, net of taxes		(531)		(531)	(49)	(580)		
Total comprehensive income (loss)				(419)	4	(415)		
Dividends to noncontrolling interests					(36)	(36)		
Stock-based compensation expense and exercises and other		2		2	2	4		
Balances as of March 31, 2018	\$ 1	\$ 11,979	\$ 2,627	\$ 1,111	\$ (2,700)	\$ 13,018	\$ 1,844	\$ 14,862

See Notes to Condensed Consolidated Financial Statements

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

(Amounts in millions)

(Unaudited)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 230	\$ 165
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums	(16)	(25)
Net investment (gains) losses	(74)	31
Charges assessed to policyholders	(165)	(178)
Acquisition costs deferred	(17)	(18)
Amortization of deferred acquisition costs and intangibles	91	104
Deferred income taxes	75	26
Derivative instruments and limited partnerships	(30)	(152)
Stock-based compensation expense	7	7
Change in certain assets and liabilities:		
Accrued investment income and other assets	(258)	(45)
Insurance reserves	301	377
Current tax liabilities	8	(39)
Other liabilities, policy and contract claims and other policy-related balances	(18)	(144)
Net cash from operating activities	134	109
Cash flows from (used by) investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	902	934
Commercial mortgage loans	127	205
Restricted commercial mortgage loans related to a securitization entity	3	8
Proceeds from sales of investments:		
Fixed maturity and equity securities	1,714	792
Purchases and originations of investments:		
Fixed maturity and equity securities	(2,128)	(2,013)
Commercial mortgage loans	(370)	(199)
Other invested assets, net	17	104
Policy loans, net	12	2
Net cash from (used by) investing activities	277	(167)

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Cash flows from (used by) financing activities:		
Deposits to universal life and investment contracts	198	255
Withdrawals from universal life and investment contracts	(581)	(591)
Proceeds from issuance of long-term debt		441
Repayment of borrowings related to a securitization entity		(8)
Repurchase of subsidiary shares	(12)	(36)
Dividends paid to noncontrolling interests	(28)	(36)
Other, net	48	22
Net cash from (used by) financing activities	(375)	47
Effect of exchange rate changes on cash, cash equivalents and restricted cash	8	(21)
Net change in cash, cash equivalents and restricted cash	44	(32)
Cash, cash equivalents and restricted cash at beginning of period	2,177	2,875
Cash, cash equivalents and restricted cash at end of period	\$ 2,221	\$ 2,843

See Notes to Condensed Consolidated Financial Statements

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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., a limited liability company incorporated in the People's Republic of China (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, pursuant to which, subject to the terms and conditions set forth therein, 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 closing of the transaction remains subject to other closing conditions and approvals.

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.

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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.

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 2018 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2019, we adopted new accounting guidance related to benchmark interest rates used in derivative hedge accounting. The guidance adds an additional permissible U.S. benchmark interest rate, the Secured Overnight Financing Rate, for hedge accounting purposes. We adopted this new accounting guidance using the prospective method, which did not have any impact on our condensed consolidated financial statements and disclosures.

On January 1, 2019, we adopted 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. We adopted this new accounting guidance using the modified retrospective method. This guidance is consistent with our previous accounting practices and, accordingly, had no impact on our condensed consolidated financial statements at adoption.

On January 1, 2019, we adopted new accounting guidance related to 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. We adopted this new accounting guidance using the modified retrospective method, which had no significant impact on our condensed consolidated financial statements at adoption.

On January 1, 2019, we adopted new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-of-use asset and a corresponding lease liability on the balance sheet. We adopted this new accounting guidance using the effective date transition method, which

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

permits entities to apply the new lease standard using a modified retrospective transition approach at the date of adoption. As such, historical periods will continue to be measured and presented under the previous guidance while current and future periods will be subject to this new accounting guidance. The package of practical expedients was also elected upon adoption. Upon adoption we recorded a \$60 million right-of-use asset related to operating leases and a \$63 million lease liability. In addition, we de-recognized accrued rent expense of \$3 million recorded under the previous accounting guidance. The right-of-use asset and the lease liability are included in other assets and other liabilities, respectively, but do not have a material impact on our condensed consolidated balance sheet as of March 31, 2019. The initial measurement of our right-of-use asset had no significant initial direct costs, prepaid lease payments or lease incentives; therefore, a cumulative-effect adjustment was not recorded to the opening retained earnings balance as a result of the change in accounting principle.

Our leased assets are predominantly classified as operating leases and consist of office space in 14 locations primarily in the United States, Canada and Australia. Lease payments included in the calculation of our lease liability include fixed amounts contained within each rental agreement and variable lease payments that are based upon an index or rate. We have elected to combine lease and non-lease components, as permitted under this new accounting guidance, as a result, non-lease components are included in the calculation of our lease liability as opposed to being separated and accounted for as consideration under the new revenue recognition standard. Our remaining lease terms range from 1 to 14 years and have a weighted-average remaining lease term of 7.6 years as of March 31, 2019. The implicit rate of our lease agreements was not readily determinable; therefore, we utilized our incremental borrowing rate to discount future lease payments. The weighted-average discount rate was 6.24% as of March 31, 2019.

Our aggregate annual rental expense for all leases under the previous guidance was approximately \$11 million. Annual rental expense and future minimum lease payments are not expected to be materially different under this new accounting guidance.

Accounting Pronouncements Not Yet Adopted

In August 2018, the Financial Accounting Standards Board (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 deferred acquisition costs (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);

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 condensed 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 condensed consolidated financial statements and disclosures.

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 condensed consolidated financial statements and disclosures.

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 condensed consolidated financial statements.

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Basic and diluted earnings per share are calculated by dividing each income 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	
	March 31,	
	2019	2018
Weighted-average shares used in basic earnings per share calculations	501.2	499.6
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	7.4	3.1
Weighted-average shares used in diluted earnings per share calculations	508.6	502.7
Net income:		
Net income	\$ 230	\$ 165
Less: net income attributable to noncontrolling interests	56	53
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 174	\$ 112
Basic earnings per share:		
Net income	\$ 0.46	\$ 0.33
Less: net income attributable to noncontrolling interests	0.11	0.11
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 0.35	\$ 0.22
Diluted earnings per share:		
Net income	\$ 0.45	\$ 0.33
Less: net income attributable to noncontrolling interests	0.11	0.10
Net income available to Genworth Financial, Inc.'s common stockholders ⁽¹⁾	\$ 0.34	\$ 0.22

⁽¹⁾ May not total due to whole number calculation.

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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 March 31,	
	2019	2018
Fixed maturity securities taxable	\$ 643	\$ 635
Fixed maturity securities non-taxable	2	3
Equity securities	9	10
Commercial mortgage loans	81	82
Restricted commercial mortgage loans related to a securitization entity	1	2
Policy loans	46	43
Other invested assets	59	39
Cash, cash equivalents, restricted cash and short-term investments	12	12
Gross investment income before expenses and fees	853	826
Expenses and fees	(24)	(22)
Net investment income	\$ 829	\$ 804

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended March 31,	
	2019	2018
Available-for-sale securities:		
Realized gains	\$ 81	\$ 7
Realized losses	(22)	(16)

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Net realized gains (losses) on available-for-sale securities	59	(9)
Impairments:		
Total other-than-temporary impairments		
Portion of other-than-temporary impairments included in other comprehensive income		
Net realized gains (losses) on equity securities sold	3	2
Net unrealized gains (losses) on equity securities still held	8	(18)
Limited partnerships	15	7
Commercial mortgage loans	(1)	
Derivative instruments ⁽¹⁾	(10)	(13)
Net investment gains (losses)	\$ 74	\$ (31)

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 March 31, 2019 and 2018 was \$763 million and \$619 million, respectively, which was approximately 97% and 98%, respectively, of book value.

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 three months ended March 31:

(Amounts in millions)	2019	2018
Beginning balance	\$ 24	\$ 32
Reductions:		
Securities sold, paid down or disposed	(1)	(4)
Ending balance	\$ 23	\$ 28

(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)	March 31, 2019	December 31, 2018
Net unrealized gains (losses) on fixed maturity securities ⁽¹⁾	\$ 3,714	\$ 1,775
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(2,401)	(952)
Income taxes, net	(300)	(190)
Net unrealized investment gains (losses)	1,013	633
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	70	38
	\$ 943	\$ 595

Net unrealized investment gains (losses) attributable to Genworth
Financial, Inc.

(1) Excludes foreign exchange.

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

(Amounts in millions)	2019	2018
Beginning balance	\$ 595	\$ 1,085
Cumulative effect of changes in accounting:		
Stranded tax effects		189
Recognition and measurement of financial assets and liabilities, net of taxes of \$ and \$18		(25)
Total cumulative effect of changes in accounting		164
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,999	(1,681)
Adjustment to deferred acquisition costs	(989)	442
Adjustment to present value of future profits	(53)	36
Adjustment to sales inducements	(19)	20
Adjustment to benefit reserves	(388)	740
Provision for income taxes	(123)	95
Change in unrealized gains (losses) on investment securities	427	(348)
Reclassification adjustments to net investment (gains) losses, net of taxes of \$13 and \$(1)	(47)	7
Change in net unrealized investment gains (losses)	380	(341)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	32	(9)
Ending balance	\$ 943	\$ 917

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity Securities

As of March 31, 2019, 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	\$ 4,116	\$ 619	\$	\$ (4)	\$ 4,731
State and political subdivisions	2,329	223		(6)	2,546
Non-U.S. government	2,403	121		(6)	2,518
U.S. corporate:					
Utilities	4,296	426		(37)	4,685
Energy	2,447	186		(15)	2,618
Finance and insurance	6,883	405		(37)	7,251
Consumer non-cyclical	4,905	407		(55)	5,257
Technology and communications	2,832	161		(19)	2,974
Industrial	1,194	67		(12)	1,249
Capital goods	2,283	225		(19)	2,489
Consumer cyclical	1,579	83		(16)	1,646
Transportation	1,271	107		(16)	1,362
Other	379	33		(1)	411
Total U.S. corporate	28,069	2,100		(227)	29,942
Non-U.S. corporate:					
Utilities	1,100	36		(9)	1,127
Energy	1,327	124		(4)	1,447
Finance and insurance	2,434	129		(9)	2,554
Consumer non-cyclical	699	19		(9)	709
Technology and communications	1,151	52		(6)	1,197
Industrial	920	56		(3)	973
Capital goods	644	21		(3)	662
Consumer cyclical	537	8		(4)	541

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Transportation	756	65	(6)	815	
Other	2,127	139	(6)	2,260	
Total non-U.S. corporate	11,695	649	(59)	12,285	
Residential mortgage-backed	2,762	181	13	(6)	2,950
Commercial mortgage-backed	2,946	64	(48)	2,962	
Other asset-backed	3,422	18	1	(15)	3,426
Total available-for-sale fixed maturity securities	\$ 57,742	\$ 3,975	\$ 14	\$ (371)	\$ 61,360

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

As of December 31, 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	\$ 4,175	\$ 473	\$	\$ (17)	\$ 4,631
State and political subdivisions	2,406	168		(22)	2,552
Non-U.S. government	2,345	72		(24)	2,393
U.S. corporate:					
Utilities	4,439	331		(95)	4,675
Energy	2,382	101		(64)	2,419
Finance and insurance	6,705	249		(132)	6,822
Consumer non-cyclical	4,891	294		(137)	5,048
Technology and communications	2,823	110		(78)	2,855
Industrial	1,230	41		(33)	1,238
Capital goods	2,277	165		(51)	2,391
Consumer cyclical	1,592	53		(48)	1,597
Transportation	1,283	78		(41)	1,320
Other	376	24		(3)	397
Total U.S. corporate	27,998	1,446		(682)	28,762
Non-U.S. corporate:					
Utilities	1,056	17		(32)	1,041
Energy	1,320	72		(23)	1,369
Finance and insurance	2,391	72		(40)	2,423
Consumer non-cyclical	756	8		(25)	739
Technology and communications	1,168	23		(26)	1,165
Industrial	926	36		(17)	945
Capital goods	615	10		(10)	615
Consumer cyclical	532	1		(13)	520
Transportation	689	46		(15)	720
Other	2,218	105		(23)	2,300

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Total non-U.S. corporate	11,671	390		(224)		11,837
Residential mortgage-backed	2,888	160	13	(17)		3,044
Commercial mortgage-backed	3,054	43		(81)		3,016
Other asset-backed	3,444	10	1	(29)		3,426
Total available-for-sale fixed maturity securities	\$ 57,981	\$ 2,762	\$ 14	\$ (1,096)	\$	\$ 59,661

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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 March 31, 2019:

Description of Securities	Less than 12 months		12 months or more		Total	
	Gross		Gross		Gross	
(Dollar amounts in millions)	Fair unrealized value	Number of securities	Fair unrealized value	Number of securities	Fair unrealized value	Number of securities
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	\$ 11	3	\$ 229	(4)	\$ 229	(4)
State and political subdivisions	62	11	331	(6)	393	(6)
Non-U.S. government	1,247	(37)	153	5,003	(190)	698
U.S. corporate	354	(6)	57	1,922	(53)	296
Non-U.S. corporate	46	(1)	9	476	(5)	85
Residential mortgage-backed	168	(4)	22	933	(44)	143
Commercial mortgage-backed	981	(10)	209	707	(5)	162
Other asset-backed						
Total for fixed maturity securities in an unrealized loss position	\$ 2,869	\$ (58)	464	\$ 9,860	\$ (313)	1,511
% Below cost:						
<20% Below cost	\$ 2,869	\$ (58)	464	\$ 9,839	\$ (304)	1,505
20%-50% Below cost				18	(6)	3
>50% Below cost				3	(3)	3
Total for fixed maturity securities in an unrealized loss position	\$ 2,869	\$ (58)	464	\$ 9,860	\$ (313)	1,511
Investment grade	\$ 2,639	\$ (51)	434	\$ 9,439	\$ (292)	1,446
Below investment grade	230	(7)	30	421	(21)	65
	\$ 2,869	\$ (58)	464	\$ 9,860	\$ (313)	1,511

Total for fixed maturity
securities in an unrealized loss
position

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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 March 31, 2019:

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)									
U.S. corporate:									
Utilities	\$ 217	\$ (7)	22	\$ 697	\$ (30)	103	\$ 914	\$ (37)	125
Energy	60		15	368	(15)	49	428	(15)	64
Finance and insurance	203	(5)	27	1,398	(32)	198	1,601	(37)	225
Consumer non-cyclical	313	(13)	27	813	(42)	104	1,126	(55)	131
Technology and communications	95	(4)	17	446	(15)	66	541	(19)	83
Industrial	98	(2)	10	193	(10)	27	291	(12)	37
Capital goods	87	(2)	15	359	(17)	48	446	(19)	63
Consumer cyclical	59		12	397	(16)	53	456	(16)	65
Transportation	99	(3)	7	316	(13)	49	415	(16)	56
Other	16	(1)	1	16		1	32	(1)	2
Subtotal, U.S. corporate securities	1,247	(37)	153	5,003	(190)	698	6,250	(227)	851
Non-U.S. corporate:									
Utilities	24		2	259	(9)	30	283	(9)	32
Energy	29		4	187	(4)	26	216	(4)	30
Finance and insurance	39		9	475	(9)	73	514	(9)	82
Consumer non-cyclical	38	(1)	9	208	(8)	25	246	(9)	34
Technology and communications	89	(2)	7	136	(4)	28	225	(6)	35
Industrial	8		4	135	(3)	18	143	(3)	22
Capital goods	23		4	116	(3)	16	139	(3)	20
Consumer cyclical	37	(1)	6	128	(3)	25	165	(4)	31
Transportation	38	(1)	6	102	(5)	18	140	(6)	24
Other	29	(1)	6	176	(5)	37	205	(6)	43
	354	(6)	57	1,922	(53)	296	2,276	(59)	353

Subtotal, non-U.S. corporate securities

Total for corporate securities in an unrealized loss position	\$ 1,601	\$ (43)	210	\$ 6,925	\$ (243)	994	\$ 8,526	\$ (286)	1,204
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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.

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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 December 31, 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									
	\$ 545	\$ (8)	17	\$ 161	\$ (9)	26	\$ 706	\$ (17)	43
State and political subdivisions	371	(10)	63	233	(12)	57	604	(22)	120
Non-U.S. government	261	(7)	51	508	(17)	35	769	(24)	86
U.S. corporate	9,975	(472)	1,342	2,449	(210)	365	12,424	(682)	1,707
Non-U.S. corporate	4,172	(150)	614	1,274	(74)	209	5,446	(224)	823
Residential mortgage-backed	363	(6)	57	579	(11)	96	942	(17)	153
Commercial mortgage-backed	758	(19)	115	870	(62)	130	1,628	(81)	245
Other asset-backed	1,597	(23)	326	604	(6)	137	2,201	(29)	463
Total for fixed maturity securities in an unrealized loss position	\$ 18,042	\$ (695)	2,585	\$ 6,678	\$ (401)	1,055	\$ 24,720	\$ (1,096)	3,640
% Below cost fixed maturity securities:									
<20% Below cost	\$ 18,008	\$ (685)	2,581	\$ 6,624	\$ (383)	1,045	\$ 24,632	\$ (1,068)	3,626
20%-50% Below cost	34	(10)	4	54	(18)	10	88	(28)	14
Total for fixed maturity securities in an unrealized loss position	\$ 18,042	\$ (695)	2,585	\$ 6,678	\$ (401)	1,055	\$ 24,720	\$ (1,096)	3,640
Investment grade	\$ 16,726	\$ (615)	2,393	\$ 6,508	\$ (379)	1,024	\$ 23,234	\$ (994)	3,417
Below investment grade	1,316	(80)	192	170	(22)	31	1,486	(102)	223
	\$ 18,042	\$ (695)	2,585	\$ 6,678	\$ (401)	1,055	\$ 24,720	\$ (1,096)	3,640

Total for fixed maturity
securities in an unrealized loss
position

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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, 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)									
U.S. corporate:									
Utilities	\$ 1,246	\$ (61)	173	\$ 343	\$ (34)	60	\$ 1,589	\$ (95)	233
Energy	944	(47)	135	152	(17)	23	1,096	(64)	158
Finance and insurance	2,393	(92)	326	688	(40)	95	3,081	(132)	421
Consumer non-cyclical	1,826	(101)	203	389	(36)	55	2,215	(137)	258
Technology and communications	1,135	(51)	152	263	(27)	34	1,398	(78)	186
Industrial	506	(27)	63	74	(6)	13	580	(33)	76
Capital goods	704	(31)	103	184	(20)	27	888	(51)	130
Consumer cyclical	738	(35)	123	162	(13)	26	900	(48)	149
Transportation	435	(25)	60	179	(16)	31	614	(41)	91
Other	48	(2)	4	15	(1)	1	63	(3)	5
Subtotal, U.S. corporate securities	9,975	(472)	1,342	2,449	(210)	365	12,424	(682)	1,707
Non-U.S. corporate:									
Utilities	404	(19)	58	173	(13)	24	577	(32)	82
Energy	439	(15)	64	136	(8)	20	575	(23)	84
Finance and insurance	899	(25)	151	294	(15)	52	1,193	(40)	203
Consumer non-cyclical	377	(16)	51	102	(9)	14	479	(25)	65
Technology and communications	611	(24)	75	50	(2)	12	661	(26)	87
Industrial	275	(11)	48	72	(6)	8	347	(17)	56
Capital goods	226	(7)	27	69	(3)	13	295	(10)	40
Consumer cyclical	268	(11)	42	117	(2)	19	385	(13)	61
Transportation	232	(7)	27	67	(8)	11	299	(15)	38
Other	441	(15)	71	194	(8)	36	635	(23)	107

Subtotal, non-U.S. corporate securities	4,172	(150)	614	1,274	(74)	209	5,446	(224)	823
Total for corporate securities in an unrealized loss position	\$ 14,147	\$ (622)	1,956	\$ 3,723	\$ (284)	574	\$ 17,870	\$ (906)	2,530

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The scheduled maturity distribution of fixed maturity securities as of March 31, 2019 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	\$ 2,005	\$ 2,021
Due after one year through five years	10,826	11,105
Due after five years through ten years	12,265	12,770
Due after ten years	23,516	26,126
Subtotal	48,612	52,022
Residential mortgage-backed	2,762	2,950
Commercial mortgage-backed	2,946	2,962
Other asset-backed	3,422	3,426
Total	\$ 57,742	\$ 61,360

As of March 31, 2019, securities issued by finance and insurance, consumer non-cyclical and utilities industry groups represented approximately 24%, 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 March 31, 2019, 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.

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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)	March 31, 2019		December 31, 2018	
	Carrying	% of	Carrying	% of
	value	total	value	total
Property type:				
Retail	\$ 2,548	37%	\$ 2,463	37%
Industrial	1,678	24	1,659	25
Office	1,671	24	1,548	23
Apartments	520	7	495	7
Mixed use	254	4	254	4
Other	272	4	281	4
Subtotal	6,943	100%	6,700	100%
Unamortized balance of loan origination fees and costs	(4)		(4)	
Allowance for losses	(10)		(9)	
Total	\$ 6,929		\$ 6,687	

(Amounts in millions)	March 31, 2019		December 31, 2018	
	Carrying	% of	Carrying	% of
	value	total	value	total
Geographic region:				
South Atlantic	\$ 1,739	25%	\$ 1,709	26%
Pacific	1,705	25	1,684	25
Middle Atlantic	1,020	15	950	14
Mountain	688	10	667	10
West North Central	486	7	470	7
East North Central	449	6	405	6
West South Central	369	5	364	6
New England	267	4	228	3
East South Central	220	3	223	3

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Subtotal	6,943	100%	6,700	100%
Unamortized balance of loan origination fees and costs	(4)		(4)	
Allowance for losses	(10)		(9)	
Total	\$ 6,929		\$ 6,687	

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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)	March 31, 2019					Current	Total
	31 - 60 days past due	61 - 90 days past due	Greater than 90 days past due	Total past due			
Property type:							
Retail	\$	\$	\$	\$	\$ 2,548	\$ 2,548	
Industrial					1,678	1,678	
Office			3	3	1,668	1,671	
Apartments					520	520	
Mixed use					254	254	
Other					272	272	
Total recorded investment	\$	\$	\$ 3	\$ 3	\$ 6,940	\$ 6,943	
% of total commercial mortgage loans	%	%	%	%	100%	100%	

(Amounts in millions)	December 31, 2018					Current	Total
	31 - 60 days past due	61 - 90 days past due	Greater than 90 days past due	Total past due			
Property type:							
Retail	\$ 3	\$	\$	\$ 3	\$ 2,460	\$ 2,463	
Industrial					1,659	1,659	
Office			3	3	1,545	1,548	
Apartments					495	495	
Mixed use					254	254	
Other					281	281	
Total recorded investment	\$ 3	\$	\$ 3	\$ 6	\$ 6,694	\$ 6,700	
% of total commercial mortgage loans	%	%	%	%	100%	100%	

As of March 31, 2019 and December 31, 2018, we had no commercial 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 March 31, 2019 and December 31, 2018.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of March 31, 2019 and December 31, 2018, our commercial mortgage loans greater than 90 days past due included one impaired loan with a carrying value of \$3 million. This loan was modified and the modification was considered to be a troubled debt restructuring. As part of this troubled debt restructuring, we forgave default interest, penalties and fees, and modified the original contractual interest rate but we did not forgive the outstanding principal amount owed by the borrower. This loan's collateral has an appraised value in excess of the carrying amount and the current carrying amount of this loan is expected to be recoverable.

During the three months ended March 31, 2019 and the year ended December 31, 2018, we also modified or extended one and two additional commercial mortgage loans, respectively, with a total carrying value of

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\$11 million and \$12 million, respectively. All of these modifications or extensions were based on current market interest rates and did not result in any forgiveness of the outstanding principal amount owed by the borrower.

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	
	March 31,	
	2019	2018
Allowance for credit losses:		
Beginning balance	\$ 9	\$ 9
Charge-offs		
Recoveries		
Provision	1	
Ending balance	\$ 10	\$ 9
Ending allowance for individually impaired loans	\$	\$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	\$ 10	\$ 9
Recorded investment:		
Ending balance	\$ 6,943	\$ 6,348
Ending balance of individually impaired loans	\$ 3	\$ 6
Ending balance of loans not individually impaired that were evaluated collectively for impairment	\$ 6,940	\$ 6,342

As of March 31, 2019 and December 31, 2018, we had one individual impaired loan within the office property type with a recorded investment and unpaid principal balance of \$3 million and as of March 31, 2018, we had one individual impaired loan with an unpaid principal balance of \$6 million.

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.

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

(Amounts in millions)	March 31, 2019					Total
	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% ⁽¹⁾	
Property type:						
Retail	\$ 877	\$ 537	\$ 1,119	\$ 15	\$	\$ 2,548
Industrial	738	290	634	14	2	1,678
Office	588	371	712			1,671
Apartments	208	90	217	5		520
Mixed use	104	45	105			254
Other	43	68	161			272
Total recorded investment	\$ 2,558	\$ 1,401	\$ 2,948	\$ 34	\$ 2	\$ 6,943
% of total	37%	20%	43%	%	%	100%
Weighted-average debt service coverage ratio	2.42	1.80	1.58	1.46	0.88	1.93

- (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 104%. We evaluated this loan on an individual basis and as it is in good standing, the current recorded investment is expected to be recoverable.

(Amounts in millions)	December 31, 2018					Total
	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% ⁽¹⁾	
Property type:						
Retail	\$ 866	\$ 565	\$ 1,017	\$ 15	\$	\$ 2,463
Industrial	749	279	615	14	2	1,659
Office	585	373	588	2		1,548
Apartments	206	95	189	5		495
Mixed use	105	36	113			254
Other	43	78	160			281

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Total recorded investment	\$ 2,554	\$ 1,426	\$ 2,682	\$ 36	\$ 2	\$ 6,700
% of total	38%	21%	40%	1%	%	100%
Weighted-average debt service coverage ratio	2.42	2.04	1.59	1.38	0.88	2.00

- (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 105%. We evaluated this loan on an individual basis and as it is in good standing, the current recorded investment is expected to be recoverable.

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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)	March 31, 2019					Total
	Less than 1.00	1.00 - 1.25	1.26 - 1.50	1.51 - 2.00	Greater than 2.00	
Property type:						
Retail	\$ 35	\$ 155	\$ 572	\$ 1,216	\$ 570	\$ 2,548
Industrial	22	69	259	667	661	1,678
Office	53	56	203	836	523	1,671
Apartments	4	24	108	191	193	520
Mixed use	3	18	52	80	101	254
Other	13	133	52	40	34	272
Total recorded investment	\$ 130	\$ 455	\$ 1,246	\$ 3,030	\$ 2,082	\$ 6,943
% of total	2%	7%	18%	43%	30%	100%
Weighted-average loan-to-value	56%	61%	64%	59%	42%	55%

(Amounts in millions)	December 31, 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	\$ 43	\$ 157	\$ 448	\$ 1,234	\$ 581	\$ 2,463
Industrial	22	75	233	653	676	1,659
Office	57	56	156	765	514	1,548
Apartments	4	24	104	168	195	495
Mixed use	3	19	51	80	101	254
Other	13	134	50	50	34	281
Total recorded investment	\$ 142	\$ 465	\$ 1,042	\$ 2,950	\$ 2,101	\$ 6,700
% of total	2%	7%	16%	44%	31%	100%

Weighted-average loan-to-value	57%	61%	62%	59%	42%	54%
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(f) Restricted Commercial Mortgage Loans Related To A Securitization Entity

We have a consolidated securitization entity that holds commercial mortgage loans that are recorded as restricted commercial mortgage loans related to a securitization entity. Our primary economic interest in this securitization entity represents the excess interest of the commercial mortgage loans.

(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. However, we consider whether an adjustment to the estimated fair value is necessary when the measurement date is not aligned with our reporting date.

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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 March 31, 2019 and December 31, 2018, the total carrying value of these investments was \$445 million and \$394 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 some 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 cash flow hedges.

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(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 March 31, 2019	Fair value December 31, 2018	Balance sheet classification	Fair value March 31, 2019	Fair value December 31, 2018
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	\$ 59	\$ 42	Other liabilities	\$ 49	\$ 102
Foreign currency swaps	Other invested assets	3	6	Other liabilities		
Total cash flow hedges		62	48		49	102
Total derivatives designated as hedges		62	48		49	102
Derivatives not designated as hedges						
Interest rate swaps in a foreign currency	Other invested assets	46	74	Other liabilities		
Interest rate caps and floors	Other invested assets	13	7	Other liabilities		
Foreign currency swaps	Other invested assets			Other liabilities	13	23
Equity index options	Other invested assets	60	39	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets			Other liabilities	1	1
Other foreign currency contracts	Other invested assets	6	10	Other liabilities	25	42
GMWB embedded derivatives	Reinsurance recoverable ⁽¹⁾	18	20	Policyholder account balances ⁽²⁾	295	337
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances ⁽³⁾	423	389
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances ⁽⁴⁾	13	12
Total derivatives not designated as hedges		143	150		770	804

Total derivatives	\$ 205	\$ 198	\$ 819	\$ 906
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- (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.

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

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, 2018	Additions	Maturities/ terminations	March 31, 2019
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	\$ 9,924	\$	\$ (654)	\$ 9,270
Foreign currency swaps	Notional	80	35	(22)	93
Total cash flow hedges		10,004	35	(676)	9,363
Total derivatives designated as hedges		10,004	35	(676)	9,363
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,674			4,674
Interest rate swaps in a foreign currency	Notional	2,565	98	(44)	2,619
Interest rate caps and floors	Notional	2,624	84	(38)	2,670
Foreign currency swaps	Notional	453		(2)	451
Equity index options	Notional	2,628	503	(580)	2,551
Financial futures	Notional	1,415	1,759	(1,968)	1,206
Equity return swaps	Notional	17	1		18
Other foreign currency contracts	Notional	1,080	1,386	(1,414)	1,052
Total derivatives not designated as hedges		15,456	3,831	(4,046)	15,241
Total derivatives		\$ 25,460	\$ 3,866	\$ (4,722)	\$ 24,604

(Number of policies)	Measurement	December 31, 2018	Additions	Maturities/ terminations	March 31, 2019
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	27,886		(577)	27,309

Fixed index annuity embedded derivatives	Policies	16,464	(213)	16,251
Indexed universal life embedded derivatives	Policies	929	(11)	918
<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; and (v) other instruments to hedge the cash flows of various forecasted transactions.

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The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended March 31, 2019:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) net income from OCI	reclassified into		Classification of gain (loss) recognized in net income	Classification of gain (loss) recognized in net income
			Gain (loss) recognized in OCI	Gain (loss) net income from OCI		
Interest rate swaps hedging assets	\$ 137	\$ 38			Net investment income	Net investment gains (losses)
Interest rate swaps hedging assets		6			Net investment gains (losses)	Net investment gains (losses)
Interest rate swaps hedging liabilities	(12)				Interest expense	Net investment gains (losses)
Foreign currency swaps	(3)				Net investment income	Net investment gains (losses)
Total	\$ 122	\$ 44				\$ 2

The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended March 31, 2018:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) net income from OCI	reclassified into		Classification of gain (loss) recognized in net income	Classification of gain (loss) recognized in net income
			Gain (loss) recognized in OCI	Gain (loss) net income from OCI		
Interest rate swaps hedging assets	\$ (173)	\$ 35			Net investment income	Net investment gains (losses)
Interest rate swaps hedging assets		5			Net investment gains (losses)	Net investment gains (losses)
	17				Interest expense	

Interest rate swaps hedging liabilities			Net investment gains (losses)
Foreign currency swaps	(1)	Net investment income	Net investment gains (losses)
Total	\$ (157)	\$ 40	\$

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The following table provides 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	
	March 31,	
	2019	2018
Derivatives qualifying as effective accounting hedges as of January 1	\$ 1,781	\$ 2,065
Cumulative effect of changes in accounting:		
Stranded tax effects		12
Changes to the hedge accounting model, net of deferred taxes of \$ and \$(1)		2
Total cumulative effect of changes in accounting		14
Current period increases (decreases) in fair value, net of deferred taxes of \$(25) and \$34	97	(126)
Reclassification to net (income), net of deferred taxes of \$16 and \$14	(28)	(26)
Derivatives qualifying as effective accounting hedges as of March 31	\$ 1,850	\$ 1,927

The total of derivatives designated as cash flow hedges of \$1,850 million, net of taxes, recorded in stockholders' equity as of March 31, 2019 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, \$109 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 three months ended March 31, 2019 and 2018, we reclassified \$4 million and \$3 million, respectively, 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) 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; (iii) interest rate swaps in a foreign currency and interest rate caps and floors where the hedging relationship does not qualify for hedge accounting; (iv) 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 (v) 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 insurance products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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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:

Three months ended March 31, Classification of gain (loss) recognized

(Amounts in millions)	2019	2018	in net income
Interest rate swaps	\$ (1)	\$ (1)	Net investment gains (losses)
Interest rate swaps in a foreign currency	(23)		Net investment gains (losses)
Interest rate caps and floors	6		Net investment gains (losses)
Equity index options	17	(15)	Net investment gains (losses)
Financial futures	(44)	(24)	Net investment gains (losses)
Equity return swaps		(5)	Net investment gains (losses)
Other foreign currency contracts	9	8	Net investment gains (losses)
Foreign currency swaps	10	(8)	Net investment gains (losses)
GMWB embedded derivatives	45	14	Net investment gains (losses)
Fixed index annuity embedded derivatives	(38)	8	Net investment gains (losses)
Indexed universal life embedded derivatives	1	5	Net investment gains (losses)
Total derivatives not designated as hedges	\$ (18)	\$ (18)	

Derivative Counterparty Credit Risk

Most of our derivative arrangements with counterparties require the posting of collateral upon meeting certain net exposure thresholds. 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)	March 31, 2019			December 31, 2018		
	Derivatives assets	Derivatives liabilities	Net derivatives	Derivatives assets	Derivatives liabilities	Net derivatives
	(1)	(2)		(1)	(2)	
Amounts presented in the balance sheet:						
Gross amounts recognized	\$ 196	\$ 89	\$ 107	\$ 185	\$ 169	\$ 16

Gross amounts offset in the balance sheet

Net amounts presented in the balance sheet	196	89	107	185	169	16
Gross amounts not offset in the balance sheet:						
Financial instruments ⁽³⁾	(40)	(40)		(66)	(66)	
Collateral received	(66)		(66)	(84)		(84)
Collateral pledged		(428)	428		(536)	536
Over collateralization	2	380	(378)	10	433	(423)
Net amount	\$ 92	\$ 1	\$ 91	\$ 45	\$	\$ 45

- (1) Included \$9 million and \$6 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of March 31, 2019 and December 31, 2018, respectively.
- (2) Included \$1 million of accruals on derivatives included in other liabilities as of March 31, 2019 and does not include amounts related to embedded derivatives as of March 31, 2019 and December 31, 2018.
- (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.

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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, financial strength rating or risk-based capital ratio is below the limit defined in the applicable agreement. If the provisions defined in these agreements had been triggered as of March 31, 2019 and December 31, 2018, we could have been allowed to claim \$92 million and \$45 million, respectively, or have been required to disburse up to \$1 million as of March 31, 2019. The chart above excludes embedded derivatives as those derivatives are not subject to master netting arrangements. As of March 31, 2019, no counterparties exercised their rights to terminate or revise the terms of their transactions with us.

(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, cash equivalents and restricted cash, 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.

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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	March 31, 2019			
			Total	Fair value		
				Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	(1)	\$ 6,929	\$ 7,038	\$	\$	\$ 7,038
Restricted commercial mortgage loans	(1)	59	63			63
Bank loan investments	(1)	294	293			293
Liabilities:						
Long-term borrowings	(1)	4,035	3,564		3,420	144
Non-recourse funding obligations	(1)	311	215			215
Investment contracts	(1)	12,663	13,241			13,241
Other firm commitments:						
Commitments to fund limited partnerships		747				
Commitments to fund bank loan investments		40				
Ordinary course of business lending commitments		152				

(Amounts in millions)	Notional amount	Carrying amount	December 31, 2018			
			Total	Fair value		
				Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	(1)	\$ 6,687	\$ 6,737	\$	\$	\$ 6,737
Restricted commercial mortgage loans	(1)	62	66			66
Bank loan investments	(1)	248	248			248
Liabilities:						
Long-term borrowings	(1)	4,025	3,577		3,434	143
Non-recourse funding obligations	(1)	311	215			215
Investment contracts	(1)	13,105	13,052			13,052
Other firm commitments:						
Commitments to fund limited partnerships		539				
Commitments to fund bank loan investments		33				
Ordinary course of business lending commitments		73				

(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.

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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

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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.

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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 March 31, 2019. 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.

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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 March 31, 2019:

(Amounts in millions)	Fair value	Primary methodologies	Significant inputs
U.S. government, agencies and government-sponsored enterprises	\$ 4,731	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	\$ 2,494	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	\$ 2,502	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	\$ 26,748	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	\$ 10,123	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	\$ 2,915	OAS-based models,	Prepayment and default assumptions,

		To Be Announced pricing models, single factor binomial models, internally priced	aggregation of bonds with similar characteristics, including collateral type, vintage, 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	\$ 2,864	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	\$ 3,224	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

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

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\$16 million, \$1,031 million and \$588 million, respectively, as of March 31, 2019. 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 \$3,660 million as of March 31, 2019.

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 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 \$464 million as of March 31, 2019.

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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.

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 March 31, 2019 and December 31, 2018, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of \$60 million and \$64 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.

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.

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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 insurance 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.

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.

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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 represent the forward interest rate swap curve and foreign currency exchange rates, which are generally considered observable inputs, and results 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.

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 observable inputs, and results in the derivative being classified as Level 2.

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.

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 and time value component associated with the optionality in the derivative,

which are generally considered observable inputs and results in the derivative being classified as Level 2. 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.

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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)	March 31, 2019				NAV ⁽¹⁾
	Total	Level 1	Level 2	Level 3	
Assets					
Investments:					
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 4,731	\$	\$ 4,731	\$	\$
State and political subdivisions	2,546		2,494	52	
Non-U.S. government	2,518		2,518		
U.S. corporate:					
Utilities	4,685		3,937	748	
Energy	2,618		2,503	115	
Finance and insurance	7,251		6,661	590	
Consumer non-cyclical	5,257		5,183	74	
Technology and communications	2,974		2,922	52	
Industrial	1,249		1,209	40	
Capital goods	2,489		2,394	95	
Consumer cyclical	1,646		1,451	195	
Transportation	1,362		1,308	54	
Other	411		212	199	
Total U.S. corporate	29,942		27,780	2,162	
Non-U.S. corporate:					
Utilities	1,127		692	435	
Energy	1,447		1,226	221	
Finance and insurance	2,554		2,372	182	
Consumer non-cyclical	709		642	67	
Technology and communications	1,197		1,170	27	
Industrial	973		910	63	
Capital goods	662		489	173	
Consumer cyclical	541		416	125	
Transportation	815		623	192	
Other	2,260		2,170	90	

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Total non-U.S. corporate	12,285		10,710	1,575	
Residential mortgage-backed	2,950		2,915	35	
Commercial mortgage-backed	2,962		2,864	98	
Other asset-backed	3,426		3,224	202	
Total fixed maturity securities	61,360		57,236	4,124	
Equity securities	635	513	67	55	
Other invested assets:					
Derivative assets:					
Interest rate swaps	59		59		
Interest rate swaps in a foreign currency	46		46		
Interest rate caps and floors	13		13		
Foreign currency swaps	3		3		
Equity index options	60			60	
Other foreign currency contracts	6		6		
Total derivative assets	187		127	60	
Securities lending collateral	106		106		
Short-term investments	139		139		
Limited partnerships	359				359
Total other invested assets	791		372	60	359
Reinsurance recoverable ⁽²⁾	18			18	
Separate account assets	6,210	6,210			
Total assets	\$ 69,014	\$ 6,723	\$ 57,675	\$ 4,257	\$ 359

(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.

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(Amounts in millions)	December 31, 2018				NAV ⁽¹⁾
	Total	Level 1	Level 2	Level 3	
Assets					
Investments:					
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 4,631	\$	\$ 4,631	\$	\$
State and political subdivisions	2,552		2,501	51	
Non-U.S. government	2,393		2,393		
U.S. corporate:					
Utilities	4,675		4,032	643	
Energy	2,419		2,298	121	
Finance and insurance	6,822		6,288	534	
Consumer non-cyclical	5,048		4,975	73	
Technology and communications	2,855		2,805	50	
Industrial	1,238		1,199	39	
Capital goods	2,391		2,299	92	
Consumer cyclical	1,597		1,386	211	
Transportation	1,320		1,263	57	
Other	397		219	178	
Total U.S. corporate	28,762		26,764	1,998	
Non-U.S. corporate:					
Utilities	1,041		637	404	
Energy	1,369		1,152	217	
Finance and insurance	2,423		2,252	171	
Consumer non-cyclical	739		633	106	
Technology and communications	1,165		1,139	26	
Industrial	945		884	61	
Capital goods	615		442	173	
Consumer cyclical	520		398	122	
Transportation	720		549	171	
Other	2,300		2,219	81	
Total non-U.S. corporate	11,837		10,305	1,532	
Residential mortgage-backed	3,044		3,009	35	
Commercial mortgage-backed	3,016		2,921	95	
Other asset-backed	3,426		3,261	165	

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Total fixed maturity securities	59,661		55,785	3,876	
Equity securities	655	533	64	58	
Other invested assets:					
Derivative assets:					
Interest rate swaps	42		42		
Interest rate swaps in a foreign currency	74		74		
Interest rate caps and floors	7		7		
Foreign currency swaps	6		6		
Equity index options	39			39	
Other foreign currency contracts	10		10		
Total derivative assets	178		139	39	
Securities lending collateral	102		102		
Short-term investments	230		230		
Limited partnerships	318				318
Total other invested assets	828		471	39	318
Reinsurance recoverable ⁽²⁾	20			20	
Separate account assets	5,859	5,859			
Total assets	\$ 67,023	\$ 6,392	\$ 56,320	\$ 3,993	\$ 318

(1) Limited partnerships that are measured at fair value using the NAV 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.

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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.

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

(Amounts in millions)	Total realized and unrealized gains (losses)						Total gains (losses) included in net income attributable		
	Beginning balance as of January 1, 2019	Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Ending balance as of March 31, 2019	to assets still held
						Level 3 (1)	Level 3 (1)		
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	\$	\$	\$	\$	\$	\$	\$	\$	\$
State and political subdivisions	51	1						52	1
U.S. corporate:									
Utilities	643		22	14	(1)	(2)	72	748	
Energy	121		4			(10)		115	
Finance and insurance	534		23	30		(4)	7	590	
Consumer non-cyclical	73		2			(10)	9	74	
Technology and communications	50		2					52	
Industrial	39		1					40	
Capital goods	92		3					95	
Consumer cyclical	211		7		(13)	(1)	(9)	195	
Transportation	57		1	4		(8)		54	
Other	178		3	22		(12)	8	199	
Total U.S. corporate	1,998		68	70	(14)	(47)	96	(9)	2,162

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Non-U.S. corporate:

Utilities	404		16	30				(15)		435		
Energy	217		7	1				(4)		221		
Finance and insurance	171	1	11	5				(6)		182	1	
Consumer non-cyclical	106	2	3					(44)		67		
Technology and communications	26		1							27		
Industrial	61		2							63		
Capital goods	173		6	5				(11)		173		
Consumer cyclical	122		6					(3)		125		
Transportation	171		6	15						192		
Other	81		4					(1)	6	90		
Total non-U.S. corporate	1,532	3	62	56				(63)	6	(21)	1,575	1
Residential mortgage-backed	35										35	
Commercial mortgage-backed	95		2	1						98		
Other asset-backed	165		1	54				(13)	1	(6)	202	
Total fixed maturity securities	3,876	4	133	181	(14)			(123)	103	(36)	4,124	2
Equity securities	58							(3)			55	
Other invested assets:												
Derivative assets:												
Equity index options	39	17		12				(8)			60	12
Total derivative assets	39	17		12				(8)			60	12
Total other invested assets	39	17		12				(8)			60	12
Reinsurance recoverable												
(2)	20	(3)						1			18	(3)
Total Level 3 assets	\$ 3,993	\$ 18	\$ 133	\$ 193	\$ (17)	\$ 1	\$ (131)	\$ 103	\$ (36)	\$ 4,257	\$ 11	

(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.

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	Total realized and unrealized gains (losses)						Total gains (losses) included in net income attributable to assets still held					
	Beginning balance as of January 1, 2018	Included in net income	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3 (1)	Transfer out of Level 3 (1)	Ending balance as of March 31, 2018		
(Amounts in millions)												
Fixed maturity securities:												
U.S. government, agencies and government-sponsored enterprises	\$ 1	\$	\$	\$	\$	\$	\$	(1)	\$	\$	\$	\$
State and political subdivisions	37	1	(3)					18		53	1	
U.S. corporate:												
Utilities	574		(18)	3				(2)	(4)	553		
Energy	147		(5)	22				(18)		146		
Finance and insurance	626	1	(26)	26				(36)	(11)	580	1	
Consumer non-cyclical	81		(2)							79		
Technology and communications	73		(6)					(42)		25		
Industrial	39									39		
Capital goods	121		(8)					(10)		103		
Consumer cyclical	262		(9)	10				(11)		252		
Transportation	60		(1)					(2)		57		
Other	169		(1)					(2)		166		
Total U.S. corporate	2,152	1	(76)	61				(123)	(15)	2,000	1	
Non-U.S. corporate:												
Utilities	343		(9)	22				(20)		336		
Energy	176		(4)	23						195		
Finance and insurance	161	1	(8)					(1)		153	1	
Consumer non-cyclical	124		(3)					(1)		120		
	29		(1)							28		

Technology and communications											
Industrial	116		(3)			(5)			108		
Capital goods	191		(5)						186		
Consumer cyclical	54		(2)						52		
Transportation	170		(4)						166		
Other	52		(2)	33					83		
Total non-U.S. corporate	1,416	1	(41)	78		(27)			1,427	1	
Residential mortgage-backed											
	77		(1)	12				(54)	34		
Commercial mortgage-backed											
	30		(2)	7				(29)	6		
Other asset-backed	237		(2)	55		(32)	3	(89)	172		
Total fixed maturity securities	3,950	3	(125)	213		(183)	21	(187)	3,692	3	
Equity securities	44			4	(3)				45		
Other invested assets:											
Derivative assets:											
Equity index options	80	(15)		14		(19)			60	(12)	
Total derivative assets	80	(15)		14		(19)			60	(12)	
Total other invested assets	80	(15)		14		(19)			60	(12)	
Reinsurance recoverable ⁽²⁾	14	(2)				1			13	(2)	
Total Level 3 assets	\$ 4,088	\$ (14)	\$ (125)	\$ 231	\$ (3)	\$ 1	\$ (202)	\$ 21	\$ (187)	\$ 3,810	\$ (11)

(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.

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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 three months ended March 31:

(Amounts in millions)	2019	2018
Total realized and unrealized gains (losses) included in net income:		
Net investment income	\$ 4	\$ 3
Net investment gains (losses)	14	(17)
Total	\$ 18	\$ (14)
Net gains (losses) included in net income attributable to assets still held:		
Net investment income	\$ 2	\$ 3
Net investment gains (losses)	9	(14)
Total	\$ 11	\$ (11)

The amount presented for unrealized gains (losses) included in net income for available-for-sale securities represents 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 March 31, 2019:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average
Fixed maturity securities:					
U.S. corporate:					
Utilities	Internal models	\$ 674	Credit spreads	60bps - 302bps	146bps
Energy	Internal models	92	Credit spreads	72bps - 317bps	169bps
Finance and insurance	Internal models	578	Credit spreads	64bps - 268bps	167bps
Consumer non-cyclical	Internal models	74	Credit spreads	85bps - 177bps	123bps
Technology and communications	Internal models	52	Credit spreads	90bps - 317bps	205bps
Industrial	Internal models	40	Credit spreads	108bps - 225bps	153bps
Capital goods	Internal models	96	Credit spreads	100bps - 283bps	162bps
Consumer cyclical	Internal models	181	Credit spreads	61bps - 235bps	142bps
Transportation	Internal models	54	Credit spreads	54bps - 235bps	107bps
Other	Internal models	170	Credit spreads	64bps - 146bps	85bps
Total U.S. corporate	Internal models	\$ 2,011	Credit spreads	54bps - 317bps	148bps
Non-U.S. corporate:					
Utilities	Internal models	\$ 435	Credit spreads	78bps - 228bps	142bps
Energy	Internal models	202	Credit spreads	100bps - 283bps	163bps
Finance and insurance	Internal models	182	Credit spreads	61bps - 222bps	131bps
Consumer non-cyclical	Internal models	66	Credit spreads	61bps - 172bps	143bps
Technology and communications	Internal models	27	Credit spreads	127bps - 184bps	167bps
Industrial	Internal models	63	Credit spreads	99bps - 151bps	112bps
Capital goods	Internal models	173	Credit spreads	85bps - 283bps	165bps
Consumer cyclical	Internal models	121	Credit spreads	72bps - 283bps	195bps
Transportation	Internal models	192	Credit spreads	61bps - 235bps	131bps
Other	Internal models	84	Credit spreads	111bps - 223bps	158bps
Total non-U.S. corporate	Internal models	\$ 1,545	Credit spreads	61bps - 283bps	149bps
Derivative assets:					
Equity index options	Discounted cash flows	\$ 60	Equity index volatility	6% - 28%	16%

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	March 31, 2019		
		Level 1	Level 2	Level 3
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives ⁽¹⁾	\$ 295	\$	\$	\$ 295
Fixed index annuity embedded derivatives	423			423
Indexed universal life embedded derivatives	13			13
Total policyholder account balances	731			731
Derivative liabilities:				
Interest rate swaps	49		49	
Foreign currency swaps	13		13	
Equity return swaps	1		1	
Other foreign currency contracts	25		25	
Total derivative liabilities	88		88	
Total liabilities	\$ 819	\$	\$ 88	\$ 731

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

(Amounts in millions)	Total	December 31, 2018		
		Level 1	Level 2	Level 3
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives ⁽¹⁾	\$ 337	\$	\$	\$ 337
Fixed index annuity embedded derivatives	389			389
Indexed universal life embedded derivatives	12			12
Total policyholder account balances	738			738

Derivative liabilities:				
Interest rate swaps	102		102	
Foreign currency swaps	23		23	
Equity return swaps	1		1	
Other foreign currency contracts	42		42	
Total derivative liabilities	168		168	
Total liabilities	\$ 906	\$	\$ 168	\$ 738

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables present additional information about liabilities 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 January 1, 2019	Total realized and unrealized (gains) losses Included in net (income)	OCIP	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfer out of Level 3	Ending balance as of March 31, 2019	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives ⁽¹⁾	\$ 337	\$(48)	\$	\$	\$	\$ 6	\$	\$	\$	\$ 295	\$ (44)
Fixed index annuity embedded derivatives	389	38					(4)			423	38
Indexed universal life embedded derivatives	12	(1)				2				13	(1)
Total policyholder account balances	738	(11)				8	(4)			731	(7)
Total Level 3 liabilities	\$ 738	\$(11)	\$	\$	\$	\$ 8	\$(4)	\$	\$	\$ 731	\$ (7)

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

Beginning balance as of January 1, 2018	Total realized and unrealized (gains)	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfer out of Level 3	Ending balance as of March 31, 2018	Total (gains) losses included in net (income)
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(Amounts in millions)	losses Included in net (income) in OCI								attributable to liabilities still held	
Policyholder account balances:										
GMWB embedded derivatives ⁽¹⁾	\$ 250	\$(16)	\$	\$	\$	\$ 8	\$	\$	\$ 242	\$(12)
Fixed index annuity embedded derivatives	419	(8)					(3)		408	(8)
Indexed universal life embedded derivatives	14	(5)				4			13	(5)
Total policyholder account balances	683	(29)				12	(3)		663	(25)
Total Level 3 liabilities	\$ 683	\$(29)	\$	\$	\$	\$ 12	\$(3)	\$	\$ 663	\$(25)

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

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 liabilities 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 three months ended March 31:

(Amounts in millions)	2019	2018
Total realized and unrealized (gains) losses included in net (income):		
Net investment income	\$	\$
Net investment (gains) losses	(11)	(29)
Total	\$ (11)	\$ (29)
Total (gains) losses included in net (income) attributable to liabilities still held:		
Net investment income	\$	\$
Net investment (gains) losses	(7)	(25)
Total	\$ (7)	\$ (25)

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

Issuances presented for GMWB embedded derivative liabilities are characterized as the change in fair value associated with the product fees recognized that are attributed to the embedded derivative to equal the expected future benefit costs upon issuance. Issuances for fixed index annuity and indexed universal life embedded derivative liabilities represent the amount of the premium received that is attributed to the value of the embedded derivative. Settlements of embedded derivatives are characterized as the change in fair value upon exercising the embedded derivative instrument, effectively representing a settlement of the embedded derivative instrument. We have shown these changes in fair value separately based on the classification of this activity as effectively issuing and settling the embedded derivative instrument with all remaining changes in the fair value of these embedded derivative instruments being shown separately in the category labeled included in net (income) in the tables presented above.

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 liability fair value measurements that are based on internal models and classified as Level 3 as of March 31, 2019:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average
Policyholder account balances:					
			Withdrawal utilization rate	44% - 87%	69%
			Lapse rate	2% - 9%	3%
			Non-performance risk (credit spreads)	17bps - 83bps	65bps
GMWB embedded derivative ⁽¹⁾	Stochastic cash flow model	\$ 295	Equity index volatility	14% - 23%	20%
Fixed index annuity embedded derivatives	Option budget method	\$ 423	Expected future interest credited	% - 3%	1%
Indexed universal life embedded derivatives	Option budget method	\$ 13	Expected future interest credited	3% - 9%	5%

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

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The following table sets forth changes in our liability for policy and contract claims as of the dates indicated:

(Amounts in millions)	As of or for the three months ended	
	March 31,	
	2019	2018
Beginning balance	\$ 10,379	\$ 9,594
Less reinsurance recoverables	(2,379)	(2,419)
Net beginning balance	8,000	7,175
Incurred related to insured events of:		
Current year	986	998
Prior years	(81)	(108)
Total incurred	905	890
Paid related to insured events of:		
Current year	(162)	(175)
Prior years	(678)	(692)
Total paid	(840)	(867)
Interest on liability for policy and contract claims	93	81
Foreign currency translation	3	(5)
Net ending balance	8,161	7,274
Add reinsurance recoverables	2,375	2,377
Ending balance	\$ 10,536	\$ 9,651

The liability for policy and contract claims represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant, and result in increases in reserves by an amount that could be material to our results of operations and financial condition and liquidity.

For the three months ended March 31, 2019, the favorable development of \$81 million related to insured events of prior years was primarily attributable to our long-term care insurance business from favorable development on prior year incurred but not reported claims and favorable claim terminations, including pending claims that terminate before becoming an active claim. For the three months ended March 31, 2018, the favorable development of \$108 million related to insured events of prior years was also primarily attributable to our long-term care insurance business from favorable claim terminations, including pending claims that terminate before becoming an active claim.

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(8) Income Taxes**

The reconciliation of the federal statutory tax rate to the effective income tax rate was as follows for the periods indicated:

	Three months ended March 31,	
	2019	2018
Statutory U.S. federal income tax rate	21.0%	21.0%
Increase (reduction) in rate resulting from:		
Effect of foreign operations	5.4	5.0
U.S. shareholder tax on foreign operations	4.8	(2.1)
Swaps terminated prior to the TCJA	2.6	2.3
Other, net	(1.1)	1.4
Effective rate	32.7%	27.6%

The increase in the effective tax rate for the three months ended March 31, 2019 was primarily attributable to a tax expense in the current year related to the Global Intangible Low Taxed Income (GILTI) provision of the Tax Cuts and Jobs Act (TCJA), which is reported within the line U.S. shareholder tax on foreign operations in the table above. GILTI has an unfavorable impact on our current year effective tax rate due to the utilization of net operating loss carryforwards and projected taxable losses in the U.S. life insurance businesses without any offsetting foreign tax credit carryforwards.

(9) Segment Information

We have the following five operating business segments: U.S. Mortgage Insurance; Canada Mortgage Insurance; Australia Mortgage Insurance; U.S Life Insurance (which includes our long-term care insurance, life insurance and fixed annuities businesses); and Runoff (which includes the results of non-strategic products which have not been actively sold). 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.

We tax our international businesses at their local jurisdictional tax rates and our domestic businesses at the U.S. corporate federal income tax rate of 21%. Our segment tax methodology applies the respective jurisdictional or domestic tax rate to the pre-tax income (loss) of each segment, which is then adjusted in each segment to reflect the tax attributes of items unique to that segment such as foreign withholding taxes and permanent differences between U.S. GAAP and local tax law. The difference between the consolidated provision for income taxes and the sum of the

provision for income taxes in each segment is reflected in Corporate and Other activities.

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders. We define adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding the after-tax effects of income

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(loss) attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions, restructuring costs and infrequent or unusual non-operating items. Gains (losses) on insurance block transactions are defined as gains (losses) on the early extinguishment of non-recourse funding obligations, early termination fees for other financing restructuring and/or resulting gains (losses) on reinsurance restructuring for certain blocks of business. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and restructuring costs are also excluded from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders because, in our opinion, they are not indicative of overall operating trends. Infrequent or unusual non-operating items are also excluded from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends.

While some of these items may be significant components of net income (loss) available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders, and measures that are derived from or incorporate adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders, are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. Management also uses adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders as a basis for determining awards and compensation for senior management and to evaluate performance on a basis comparable to that used by analysts. However, the items excluded from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders have occurred in the past and could, and in some cases will, recur in the future. Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders is not a substitute for net income (loss) available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

In the first quarter of 2019, we revised how we tax the adjustments to reconcile net income (loss) available to Genworth Financial, Inc. s common stockholders to adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders to align the tax rate used in the reconciliation to each segment s local jurisdictional tax rate. Beginning in the first quarter of 2019, we used a tax rate of 27% and 30% for our Canada and Australia Mortgage Insurance segments, respectively, to tax effect their adjustments. Our domestic segments remain at a 21% tax rate. In 2018, we assumed a flat 21% tax rate on adjustments for all of our segments to reconcile net income (loss) available to Genworth Financial, Inc. s common stockholders and adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders. These adjustments are also net of the portion attributable to noncontrolling interests and net investment gains (losses) are adjusted for DAC and other intangible amortization and certain benefit

reserves.

Prior year amounts have not been re-presented to reflect this revised presentation; however, the previous methodology would not have resulted in a materially different segment-level adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders.

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We recorded a pre-tax expense of \$4 million for the three months ended March 31, 2019 related to restructuring costs as we continue to evaluate and appropriately size our organizational needs and expenses. There were no infrequent or unusual items excluded from adjusted operating income during the periods presented.

The following is a summary of revenues for our segments and Corporate and Other activities for the periods indicated:

(Amounts in millions)	Three months ended	
	2019	2018
Revenues:		
U.S. Mortgage Insurance segment	\$ 223	\$ 200
Canada Mortgage Insurance segment	159	158
Australia Mortgage Insurance segment	110	107
U.S. Life Insurance segment:		
Long-term care insurance	1,114	1,020
Life insurance	372	379
Fixed annuities	159	182
U.S. Life Insurance segment	1,645	1,581
Runoff segment	82	68
Corporate and Other activities	(15)	1
Total revenues	\$ 2,204	\$ 2,115

The following tables present the reconciliation of net income available to Genworth Financial, Inc.'s common stockholders to adjusted operating income available to Genworth Financial, Inc.'s common stockholders and a summary of adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders for our segments and Corporate and Other activities for the periods indicated:

Three months ended
March 31,

(Amounts in millions)	2019	2018
Net income	\$ 230	\$ 165
Less: net income attributable to noncontrolling interests	56	53
Net income available to Genworth Financial, Inc.'s common stockholders	174	112
Adjustments to net income available to Genworth Financial, Inc.'s common stockholders:		
Net investment (gains) losses, net ⁽¹⁾	(71)	17
Expenses related to restructuring	4	
Taxes on adjustments	14	(4)
Adjusted operating income available to Genworth Financial, Inc.'s common stockholders	\$ 121	\$ 125

- ⁽¹⁾ For the three months ended March 31, 2019 and March 31, 2018, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(2) million and \$(3) million, respectively, and adjusted for net investment gains (losses) attributable to noncontrolling interests of \$5 million and \$(11) million, respectively.

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(Amounts in millions)	Three months ended	
	March 31,	
	2019	2018
Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders:		
U.S. Mortgage Insurance segment	\$ 124	\$ 111
Canada Mortgage Insurance segment	41	49
Australia Mortgage Insurance segment	14	19
U.S. Life Insurance segment:		
Long-term care insurance	(20)	(32)
Life insurance	(2)	(1)
Fixed annuities	17	28
U.S. Life Insurance segment	(5)	(5)
Runoff segment	20	10
Corporate and Other activities	(73)	(59)
Adjusted operating income available to Genworth Financial, Inc.'s common stockholders	\$ 121	\$ 125

The following is a summary of total assets for our segments and Corporate and Other activities as of the dates indicated:

(Amounts in millions)	March 31,	December 31,
	2019	2018
Assets:		
U.S. Mortgage Insurance segment	\$ 3,808	\$ 3,583
Canada Mortgage Insurance segment	5,146	5,038
Australia Mortgage Insurance segment	2,533	2,534
U.S. Life Insurance segment	80,619	79,799
Runoff segment	10,082	9,963
Corporate and Other activities		6
Total assets	\$ 102,188	\$ 100,923

(10) Commitments and Contingencies

(a) Litigation and Regulatory Matters

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, increases to in-force long-term care insurance premiums, payment of contingent or other sales commissions, claims payments and procedures, product design, product disclosure, product administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on

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products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement and Procedures Act of 1974 or related state anti-inducement laws, and mortgage insurance policy rescissions and curtailments, and breaching fiduciary or other duties to customers, including but not limited to breach of customer information. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships, post-closing obligations associated with previous dispositions and securities lawsuits. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition or results of operations.

In January 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its former chief financial officer and current and former members of its board of directors were named in a shareholder derivative suit filed by International Union of Operating Engineers Local No. 478 Pension Fund, Richard L. Salberg and David Pinkoski in the Court of Chancery of the State of Delaware. The case was captioned *Int'l Union of Operating Engineers Local No. 478 Pension Fund, et al v. McInerney, et al*. In February 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its former chief financial officer and current and former members of its board of directors were named in a second shareholder derivative suit filed by Martin Cohen in the Court of Chancery of the State of Delaware. The case was captioned *Cohen v. McInerney, et al*. On February 23, 2016, the Court of Chancery of the State of Delaware consolidated these derivative suits under the caption *Genworth Financial, Inc. Consolidated Derivative Litigation*. On March 28, 2016, plaintiffs in the consolidated action filed an amended complaint. The amended complaint alleges breaches of fiduciary duties concerning Genworth's long-term care insurance reserves and concerning Genworth's Australian mortgage insurance business, including our plans for an IPO of the business and seeks unspecified damages, costs, attorneys' fees and such equitable relief as the court may deem proper. The amended consolidated complaint also adds Genworth's current chief financial officer as a defendant, based on the current chief financial officer's alleged conduct in her former capacity as Genworth's controller and principal accounting officer. We moved to dismiss the consolidated action on May 27, 2016. Thereafter, plaintiffs filed a substantially similar second amended complaint which we moved to dismiss on September 16, 2016. The motion is fully briefed and awaiting disposition by the court. The action is stayed pending the completion of the proposed China Oceanwide transaction.

In October 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its current chief financial officer, its former chief financial officer and current and former members of its board of directors were named in a shareholder derivative suit filed by Esther Chopp in the Court of Chancery of the State of Delaware. The case is captioned *Chopp v. McInerney, et al*. The complaint alleges that Genworth's board of directors

wrongfully refused plaintiff's demand to commence litigation on behalf of Genworth and asserts claims for breaches of fiduciary duties, waste, contribution and indemnification, and unjust enrichment concerning Genworth's long-term care insurance reserves and concerning Genworth's Australian mortgage insurance business, including our plans for an IPO of the business, and seeks unspecified damages, costs,

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(Unaudited)

attorneys' fees and such equitable relief as the court may deem proper. We filed a motion to dismiss on November 14, 2016. The action is stayed pending the completion of the proposed China Oceanwide transaction.

In December 2017, Genworth Holdings and Genworth Financial were named as defendants in an action captioned *AXA S.A. v. Genworth Financial International Holdings, Inc., et al.*, in the High Court of Justice, Business and Property Courts of England and Wales. In the action, AXA seeks in excess of £28 million on an indemnity provided for in the 2015 agreement pursuant to which Genworth sold to AXA two insurance companies, Financial Insurance Company Limited (FICL) and Financial Assurance Company Limited (FACL), relating to alleged remediation it has paid to customers who purchased payment protection insurance. AXA also alleges that it is incurring losses on an ongoing basis and therefore that further, significantly larger, sums will be demanded. In February 2018, we served a Particulars of Defence and counterclaim against AXA, and also served other counterclaims against various parties, including Santander Cards UK Limited (Santander), alleging that Santander is responsible for any remediation paid to payment protection insurance customers. AXA and Santander have applied to the court for orders dismissing or staying the counterclaims. A hearing on those applications was held in October 2018, and the court dismissed our counterclaims. On November 15, 2018, AXA amended its claim and updated its demand to £237 million. We filed our amended Particulars of Defence and amended counterclaim on December 13, 2018, seeking, among other forms of relief, a declaration that in the event we make any payment to AXA pursuant to the indemnity, we are subrogated to FICL's and FACL's rights against Santander with respect to those amounts. On February 25, 2019, AXA amended its claim and updated its demand to £265 million. The court held a case management conference and hearing on February 26, 2019. Santander, FICL and FACL consented to be joined as parties to the proceedings and consented to allow Genworth to amend its pleadings to include the subrogation declarations to reflect the additional parties. The court scheduled the points of principle hearing on liability and subrogation matters to commence on November 4, 2019 and conclude on November 12, 2019, and scheduled the quantum hearing to commence on March 9, 2020 and conclude on March 12, 2020. On March 29, 2019, AXA, FICL, FACL and Santander filed their respective responses to our amended counterclaim. We intend to continue to vigorously defend this action.

In September 2018, Genworth Life and Annuity Insurance Company (GLAIC), our indirect wholly-owned subsidiary, was named as a defendant in a putative class action lawsuit pending in the United States District Court for the Eastern District of Virginia captioned *TVPX ARX INC., as Securities Intermediary for Consolidated Wealth Management, LTD. on behalf of itself and all others similarly situated v. Genworth Life and Annuity Insurance Company*. Plaintiff is alleging unlawful and excessive cost of insurance charges were imposed on policyholders. The complaint asserts claims for breach of contract, alleging that Genworth improperly considered non-mortality factors when calculating cost of insurance rates and failed to decrease cost of insurance charges in light of improved expectations of future mortality, and seeks unspecified compensatory damages, costs, and equitable relief. On October 29, 2018, we filed a motion to enforce in the Middle District of Georgia, and a motion to dismiss and motion to stay in the Eastern District of Virginia. We moved to enjoin the prosecution of the Eastern District of Virginia action on the basis that it involves claims released in a prior nationwide class action settlement that was approved by the Middle District of Georgia. Plaintiff filed an amended complaint on November 13, 2018. On November 16, 2018, the Eastern District of Virginia court stayed the case for 60 days. On December 6, 2018, we moved the Middle District of Georgia for leave to file our counterclaim, which alleges that plaintiff breached the prior settlement agreement by filing its current action. On

January 17, 2019, the Eastern District of Virginia court stayed the case for another 60 days or the date of the Middle District of Georgia's ruling on our motions, whichever comes earlier. A hearing on our motion to enjoin and motion for

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

leave to file our counterclaim occurred on February 21, 2019. On March 15, 2019, the Middle District of Georgia granted our motion to enjoin and denied our motion for leave to file our counterclaim. As such, plaintiff is enjoined from pursuing its class action in the Eastern District of Virginia. On March 29, 2019, plaintiff filed a notice of appeal in the Middle District of Georgia, notifying the court of its appeal to the United States Court of Appeals for the Eleventh Circuit from the order granting our motion to enjoin. On March 29, 2019, we filed our notice of cross-appeal in the Middle District of Georgia, notifying the Court of our cross-appeal to the Eleventh Circuit from the portion of the order denying our motion for leave to file our counterclaim. On April 8, 2019, the Eastern District of Virginia lifted the stay in the case and dismissed the case without prejudice, with leave for Plaintiff to refile an amended complaint only if a final appellate court decision vacates the injunction and reverses the Middle District of Georgia's opinion. We intend to continue to vigorously defend the dismissal of this action.

In September 2018, we were named as a defendant in a putative class action lawsuit pending in the Court of Chancery of the State of Delaware captioned *Richard F. Burkhart, William E. Kelly, Richard S. Lavery, Thomas R. Pratt, Gerald Green, individually and on behalf of all other persons similarly situated v. Genworth et al.* Plaintiffs are alleging that Genworth Life Insurance Company (GLIC), our indirect wholly-owned subsidiary, failed to maintain adequate capital capable of meeting its obligations to GLIC policyholders and agents. The complaint alleges causes of action for intentional fraudulent transfer and constructive fraudulent transfer, and seeks injunctive relief. We moved to dismiss this action in December 2018. On January 29, 2019, plaintiffs exercised their right to amend their complaint. On March 12, 2019, we moved to dismiss plaintiffs' amended complaint. We intend to continue to vigorously defend this action.

In January 2019, Genworth Financial and GLIC were named as defendants in a putative class action lawsuit pending in the United States District Court for the Eastern District of Virginia captioned *Jerome Skochin, Susan Skochin, and Larry Huber, individually and on behalf of all other persons similarly situated v. Genworth Financial, Inc. and Genworth Life Insurance Company.* Plaintiffs seek to represent long-term care insurance policyholders, alleging that Genworth made misleading and inadequate disclosures regarding premium increases for long-term care insurance policies. The complaint asserts claims for breach of the implied covenant of good faith and fair dealing, fraudulent inducement and violation of Pennsylvania's Unfair Trade Practices and Consumer Protection Law (on behalf of the two named plaintiffs who are Pennsylvania residents), and seeks damages (including statutory treble damages under Pennsylvania law) in excess of \$5 million. On March 12, 2019, we moved to dismiss plaintiffs' complaint. On March 26, 2019, plaintiffs filed a memorandum in opposition to our motion to dismiss, which we replied to on April 1, 2019. We intend to vigorously defend this action.

At this time we cannot determine or predict the ultimate outcome of any of the pending legal and regulatory matters specifically identified above or the likelihood of potential future legal and regulatory matters against us. Except as disclosed above, we are not able to provide an estimate or range of reasonably possible losses related to these matters. Therefore, we cannot ensure that the current investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. In addition, it is possible that related investigations and proceedings may be commenced in the future, and we could become subject to additional unrelated investigations and lawsuits. Increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal

precedents and industry-wide regulations or practices that could adversely affect our business, financial condition and results of operations.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(b) Commitments

As of March 31, 2019, we were committed to fund \$747 million in limited partnership investments, \$122 million in U.S. commercial mortgage loan investments and \$30 million in private placement investments. As of March 31, 2019, we were committed to fund \$40 million of bank loan investments which had not yet been drawn.

(11) Changes in Accumulated Other Comprehensive Income

The following tables show the changes in accumulated other comprehensive income (loss), net of taxes, by component as of and for the periods indicated:

(Amounts in millions)	Net unrealized investment gains (losses) (1)	Derivatives qualifying as hedges (2)	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2019	\$ 595	\$ 1,781	\$ (332)	\$ 2,044
OCI before reclassifications	427	97	54	578
Amounts reclassified from (to) OCI	(47)	(28)		(75)
Current period OCI	380	69	54	503
Balances as of March 31, 2019 before noncontrolling interests	975	1,850	(278)	2,547
Less: change in OCI attributable to noncontrolling interests	32		23	55
Balances as of March 31, 2019	\$ 943	\$ 1,850	\$ (301)	\$ 2,492

(1) Net of adjustments to DAC, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

Net unrealized	Derivatives qualifying as	Foreign currency
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(Amounts in millions)	investment gains (losses) (1)	hedges (2)	translation and other adjustments	Total
Balances as of January 1, 2018	\$ 1,085	\$ 2,065	\$ (123)	\$ 3,027
Cumulative effect of changes in accounting	164	14	(47)	131
OCI before reclassifications	(348)	(126)	(87)	(561)
Amounts reclassified from (to) OCI	7	(26)		(19)
Current period OCI	(341)	(152)	(87)	(580)
Balances as of March 31, 2018 before noncontrolling interests	908	1,927	(257)	2,578
Less: change in OCI attributable to noncontrolling interests	(9)		(40)	(49)
Balances as of March 31, 2018	\$ 917	\$ 1,927	\$ (217)	\$ 2,627

(1) Net of adjustments to DAC, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

The foreign currency translation and other adjustments balance included \$(2) million and \$(14) million, respectively, net of taxes of \$1 million and \$5 million, respectively, related to a net unrecognized postretirement

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benefit obligation as of March 31, 2019 and 2018. The amount also includes taxes of \$(45) million and \$(46) million, respectively, related to foreign currency translation adjustments as of March 31, 2019 and 2018. The March 31, 2018 balance included the impact of adopting new accounting guidance related to stranded tax effects.

The following table shows reclassifications in (out) of accumulated other comprehensive income (loss), net of taxes, for the periods presented:

(Amounts in millions)	Amount reclassified from accumulated other comprehensive income		Affected line item in the consolidated statements of income
	Three months ended March 31,		
	2019	2018	
Net unrealized investment (gains) losses:			
Unrealized (gains) losses on investments ⁽¹⁾	\$ (60)	\$ 8	Net investment (gains) losses
(Provision) benefit for income taxes	13	(1)	(Provision) benefit for income taxes
Total	\$ (47)	\$ 7	
Derivatives qualifying as hedges:			
Interest rate swaps hedging assets	\$ (38)	\$ (35)	Net investment income
Interest rate swaps hedging assets	(6)	(5)	Net investment (gains) losses
Benefit for income taxes	16	14	Benefit for income taxes
Total	\$ (28)	\$ (26)	

⁽¹⁾ Amounts exclude adjustments to DAC, present value of future profits, sales inducements and benefit reserves.

(12) Condensed Consolidating Financial Information

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior and subordinated notes and the holders of the senior and subordinated notes, on an unsecured unsubordinated and subordinated basis, respectively, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, each outstanding series of senior notes and outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the senior and subordinated notes indentures in respect of such senior and subordinated notes. Genworth Holdings is a direct, 100%

owned subsidiary of Genworth Financial.

The following condensed consolidating financial information of Genworth Financial and its direct and indirect subsidiaries has been prepared pursuant to rules regarding the preparation of consolidating financial information of Regulation S-X.

The condensed consolidating financial information presents the condensed consolidating balance sheet information as of March 31, 2019 and December 31, 2018, the condensed consolidating income statement information, the condensed consolidating comprehensive income statement information and the condensed consolidating cash flow statement information for the three months ended March 31, 2019 and 2018.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The condensed consolidating financial information reflects Genworth Financial (Parent Guarantor), Genworth Holdings (Issuer) and each of Genworth Financial 's other direct and indirect subsidiaries (the All Other Subsidiaries) on a combined basis, none of which guarantee the senior notes or subordinated notes, as well as the eliminations necessary to present Genworth Financial 's financial information on a consolidated basis and total consolidated amounts.

The accompanying condensed consolidating financial information is presented based on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the subsidiaries ' cumulative results of operations, capital contributions and distributions, and other changes in equity. Elimination entries include consolidating and eliminating entries for investments in subsidiaries and intercompany activity.

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The following table presents the condensed consolidating balance sheet information as of March 31, 2019:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	\$	\$	\$ 61,560	\$ (200)	\$ 61,360
Equity securities, at fair value			635		635
Commercial mortgage loans (\$59 are restricted related to a securitization entity)			6,988		6,988
Policy loans			1,994		1,994
Other invested assets		49	1,160	(1)	1,208
Investments in subsidiaries	13,222	11,928		(25,150)	
Total investments	13,222	11,977	72,337	(25,351)	72,185
Cash, cash equivalents and restricted cash		361	1,860		2,221
Accrued investment income			733	(7)	726
Deferred acquisition costs			2,219		2,219
Intangible assets and goodwill			265		265
Reinsurance recoverable			17,257		17,257
Other assets	(4)	55	482	(1)	532
Intercompany notes receivable		231		(231)	
Deferred tax assets	(11)	913	(329)		573
Separate account assets			6,210		6,210
Total assets	\$ 13,207	\$ 13,537	\$ 101,034	\$ (25,590)	\$ 102,188
Liabilities and equity					
Liabilities:					
Future policy benefits	\$	\$	\$ 38,369	\$	\$ 38,369
Policyholder account balances			22,651		22,651
Liability for policy and contract claims			10,536		10,536
Unearned premiums			3,482		3,482
Other liabilities	27	65	1,600	(10)	1,682
Intercompany notes payable	106	200	125	(431)	
Non-recourse funding obligations			311		311
Long-term borrowings		3,570	465		4,035

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Deferred tax liability			30		30
Separate account liabilities			6,210		6,210
Total liabilities	133	3,835	83,779	(441)	87,306
Equity:					
Common stock	1		3	(3)	1
Additional paid-in capital	11,989	9,096	18,429	(27,525)	11,989
Accumulated other comprehensive income (loss)	2,492	2,521	2,515	(5,036)	2,492
Retained earnings	1,292	(1,915)	(5,800)	7,715	1,292
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc.'s stockholders' equity	13,074	9,702	15,147	(24,849)	13,074
Noncontrolling interests			2,108	(300)	1,808
Total equity	13,074	9,702	17,255	(25,149)	14,882
Total liabilities and equity	\$ 13,207	\$ 13,537	\$ 101,034	\$ (25,590)	\$ 102,188

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

The following table presents the condensed consolidating balance sheet information as of December 31, 2018:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	\$	\$	\$ 59,861	\$ (200)	\$ 59,661
Equity securities, at fair value			655		655
Commercial mortgage loans (\$62 are restricted related to a securitization entity)			6,749		6,749
Policy loans			1,861		1,861
Other invested assets		86	1,104	(2)	1,188
Investments in subsidiaries	12,570	11,462		(24,032)	
Total investments	12,570	11,548	70,230	(24,234)	70,114
Cash, cash equivalents and restricted cash		429	1,748		2,177
Accrued investment income			679	(4)	675
Deferred acquisition costs			3,263		3,263
Intangible assets and goodwill			347		347
Reinsurance recoverable			17,278		17,278
Other assets	15	62	397		474
Intercompany notes receivable		180	6	(186)	
Deferred tax assets	14	907	(185)		736
Separate account assets			5,859		5,859
Total assets	\$ 12,599	\$ 13,126	\$ 99,622	\$ (24,424)	\$ 100,923
Liabilities and equity					
Liabilities:					
Future policy benefits	\$	\$	\$ 37,940	\$	\$ 37,940
Policyholder account balances			22,968		22,968
Liability for policy and contract claims			10,379		10,379
Unearned premiums			3,546		3,546
Other liabilities	27	97	1,565	(7)	1,682
Intercompany notes payable	122	207	57	(386)	
Non-recourse funding obligations			311		311
Long-term borrowings		3,567	458		4,025

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Deferred tax liability			24		24
Separate account liabilities			5,859		5,859
Total liabilities	149	3,871	83,107	(393)	86,734
Equity:					
Common stock	1		3	(3)	1
Additional paid-in capital	11,987	9,095	18,425	(27,520)	11,987
Accumulated other comprehensive income (loss)	2,044	2,144	2,060	(4,204)	2,044
Retained earnings	1,118	(1,984)	(6,012)	7,996	1,118
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc.'s stockholders' equity	12,450	9,255	14,476	(23,731)	12,450
Noncontrolling interests			2,039	(300)	1,739
Total equity	12,450	9,255	16,515	(24,031)	14,189
Total liabilities and equity	\$ 12,599	\$ 13,126	\$ 99,622	\$ (24,424)	\$ 100,923

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

The following table presents the condensed consolidating income statement information for the three months ended March 31, 2019:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	\$	\$	\$ 1,114	\$	\$ 1,114
Net investment income	(1)	3	831	(4)	829
Net investment gains (losses)		(3)	77		74
Policy fees and other income			188	(1)	187
Total revenues	(1)		2,210	(5)	2,204
Benefits and expenses:					
Benefits and other changes in policy reserves			1,301		1,301
Interest credited			147		147
Acquisition and operating expenses, net of deferrals	4	(2)	249		251
Amortization of deferred acquisition costs and intangibles			91		91
Interest expense	2	65	10	(5)	72
Total benefits and expenses	6	63	1,798	(5)	1,862
Income (loss) before income taxes and equity in income of subsidiaries	(7)	(63)	412		342
Provision (benefit) for income taxes	21	(12)	103		112
Equity in income of subsidiaries	202	120		(322)	
Net income	174	69	309	(322)	230
Less: net income attributable to noncontrolling interests			56		56
Net income available to Genworth Financial, Inc. s common stockholders	\$ 174	\$ 69	\$ 253	\$(322)	\$ 174

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

The following table presents the condensed consolidating income statement information for the three months ended March 31, 2018:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	\$	\$	\$ 1,140	\$	\$ 1,140
Net investment income	(1)	3	805	(3)	804
Net investment gains (losses)		6	(37)		(31)
Policy fees and other income			203	(1)	202
Total revenues	(1)	9	2,111	(4)	2,115
Benefits and expenses:					
Benefits and other changes in policy reserves			1,311		1,311
Interest credited			156		156
Acquisition and operating expenses, net of deferrals	7		233		240
Amortization of deferred acquisition costs and intangibles			104		104
Interest expense		68	12	(4)	76
Total benefits and expenses	7	68	1,816	(4)	1,887
Income (loss) before income taxes and equity in income of subsidiaries	(8)	(59)	295		228
Provision (benefit) for income taxes	6	(17)	74		63
Equity in income of subsidiaries	126	45		(171)	
Net income	112	3	221	(171)	165
Less: net income attributable to noncontrolling interests			53		53
Net income available to Genworth Financial, Inc. s common stockholders	\$ 112	\$ 3	\$ 168	\$(171)	\$ 112

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the three months ended March 31, 2019:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	\$ 174	\$ 69	\$ 309	\$ (322)	\$ 230
Other comprehensive income, net of taxes:					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	347	283	379	(630)	379
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	1	1	(2)	1
Derivatives qualifying as hedges	69	69	77	(146)	69
Foreign currency translation and other adjustments	31	24	53	(54)	54
Total other comprehensive income	448	377	510	(832)	503
Total comprehensive income	622	446	819	(1,154)	733
Less: comprehensive income attributable to noncontrolling interests			111		111
Total comprehensive income available to Genworth Financial, Inc.'s common stockholders	\$ 622	\$ 446	\$ 708	\$ (1,154)	\$ 622

The following table presents the condensed consolidating comprehensive income statement information for the three months ended March 31, 2018:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	\$ 112	\$ 3	\$ 221	\$ (171)	\$ 165
Other comprehensive income (loss), net of taxes:					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(332)	(295)	(341)	627	(341)
Derivatives qualifying as hedges	(152)	(153)	(165)	318	(152)

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Foreign currency translation and other adjustments	(47)	(36)	(88)	84	(87)
Total other comprehensive income (loss)	(531)	(484)	(594)	1,029	(580)
Total comprehensive loss	(419)	(481)	(373)	858	(415)
Less: comprehensive income attributable to noncontrolling interests			4		4
Total comprehensive loss available to Genworth Financial, Inc.'s common stockholders	\$ (419)	\$ (481)	\$ (377)	\$ 858	\$ (419)

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

The following table presents the condensed consolidating cash flow statement information for the three months ended March 31, 2019:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from (used by) operating activities:					
Net income	\$ 174	\$ 69	\$ 309	\$ (322)	\$ 230
Adjustments to reconcile net income to net cash from (used by) operating activities:					
Equity in income from subsidiaries	(202)	(120)		322	
Dividends from subsidiaries		47	(47)		
Amortization of fixed maturity securities discounts and premiums		2	(18)		(16)
Net investment (gains) losses		3	(77)		(74)
Charges assessed to policyholders			(165)		(165)
Acquisition costs deferred			(17)		(17)
Amortization of deferred acquisition costs and intangibles			91		91
Deferred income taxes	26	(3)	52		75
Derivative instruments and limited partnerships		(10)	(20)		(30)
Stock-based compensation expense	6		1		7
Change in certain assets and liabilities:					
Accrued investment income and other assets	19		(281)	4	(258)
Insurance reserves			301		301
Current tax liabilities	15	(9)	2		8
Other liabilities, policy and contract claims and other policy-related balances	(18)	(18)	21	(3)	(18)
Net cash from (used by) operating activities	20	(39)	152	1	134
Cash flows from (used by) investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			902		902
Commercial mortgage loans			127		127

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Restricted commercial mortgage loans related to a securitization entity			3		3
Proceeds from sales of investments:					
Fixed maturity and equity securities			1,714		1,714
Purchases and originations of investments:					
Fixed maturity and equity securities			(2,128)		(2,128)
Commercial mortgage loans			(370)		(370)
Other invested assets, net	29		(11)	(1)	17
Policy loans, net			12		12
Intercompany notes receivable	(51)		6	45	
Capital contributions to subsidiaries	(3)		3		
Net cash from (used by) investing activities	(3)	(22)	258	44	277
Cash flows used by financing activities:					
Deposits to universal life and investment contracts			198		198
Withdrawals from universal life and investment contracts			(581)		(581)
Repurchase of subsidiary shares			(12)		(12)
Dividends paid to noncontrolling interests			(28)		(28)
Intercompany notes payable	(16)	(7)	68	(45)	
Other, net	(1)		49		48
Net cash used by financing activities	(17)	(7)	(306)	(45)	(375)
Effect of exchange rate changes on cash, cash equivalents and restricted cash			8		8
Net change in cash, cash equivalents and restricted cash		(68)	112		44
Cash, cash equivalents and restricted cash at beginning of period		429	1,748		2,177
Cash, cash equivalents and restricted cash at end of period	\$	\$ 361	\$ 1,860	\$	\$ 2,221

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

The following table presents the condensed consolidating cash flow statement information for the three months ended March 31, 2018:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from (used by) operating activities:					
Net income	\$ 112	\$ 3	\$ 221	\$ (171)	\$ 165
Adjustments to reconcile net income to net cash from (used by) operating activities:					
Equity in income from subsidiaries	(126)	(45)		171	
Dividends from subsidiaries		63	(63)		
Amortization of fixed maturity securities discounts and premiums		1	(26)		(25)
Net investment (gains) losses		(6)	37		31
Charges assessed to policyholders			(178)		(178)
Acquisition costs deferred			(18)		(18)
Amortization of deferred acquisition costs and intangibles			104		104
Deferred income taxes	9	(47)	64		26
Derivative instruments and limited partnerships		17	(169)		(152)
Stock-based compensation expense	8		(1)		7
Change in certain assets and liabilities:					
Accrued investment income and other assets	5	16	(63)	(3)	(45)
Insurance reserves			377		377
Current tax liabilities	(23)	26	(42)		(39)
Other liabilities, policy and contract claims and other policy-related balances	(13)	(19)	(117)	5	(144)
Net cash from (used by) operating activities	(28)	9	126	2	109
Cash flows used by investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			934		934
Commercial mortgage loans			205		205
			8		8

Restricted commercial mortgage loans related to a securitization entity					
Proceeds from sales of investments:					
Fixed maturity and equity securities		792			792
Purchases and originations of investments:					
Fixed maturity and equity securities		(2,013)			(2,013)
Commercial mortgage loans		(199)			(199)
Other invested assets, net		106	(2)		104
Policy loans, net		2			2
Intercompany notes receivable	(56)	59	(3)		
Net cash used by investing activities	(56)	(106)	(5)		(167)
Cash flows from (used by) financing activities:					
Deposits to universal life and investment contracts		255			255
Withdrawals from universal life and investment contracts		(591)			(591)
Proceeds from the issuance of long-term debt	441				441
Repayment of borrowings related to a securitization entity		(8)			(8)
Repurchase of subsidiary shares		(36)			(36)
Dividends paid to noncontrolling interests		(36)			(36)
Intercompany notes payable	31	(59)	25	3	
Other, net	(3)		25		22
Net cash from (used by) financing activities	28	382	(366)	3	47
Effect of exchange rate changes on cash, cash equivalents and restricted cash			(21)		(21)
Net change in cash, cash equivalents and restricted cash		335	(367)		(32)
Cash, cash equivalents and restricted cash at beginning of period		795	2,080		2,875
Cash, cash equivalents and restricted cash at end of period	\$	\$ 1,130	\$ 1,713	\$	\$ 2,843

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Our insurance company subsidiaries are restricted by state and foreign laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders and contractholders, not stockholders. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2018, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately \$500 million to us in 2019 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the \$500 million is unrestricted, our insurance subsidiaries may not pay dividends to us in 2019 at this level if they need to retain capital for growth and to meet capital requirements and desired thresholds. As of March 31, 2019, Genworth Financial's and Genworth Holdings' subsidiaries had restricted net assets of \$12.7 billion and \$11.7 billion, respectively.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included herein and with our 2018 Annual Report on Form 10-K. References to Genworth Financial, Genworth, the Company, we or our herein are, unless the context otherwise requires, to Genworth Financial, Inc. on a consolidated basis.

Cautionary note regarding forward-looking statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Examples of forward-looking statements include statements we make relating to the transaction with China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide) and our discussions with regulators in connection therewith. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially from those in the forward-looking statements due to global political, economic, business, competitive, market, regulatory and other factors and risks, including, but not limited to, the following:

risks related to the proposed transaction with China Oceanwide including: our inability to complete the transaction in a timely manner or at all; the parties' inability to obtain regulatory approvals or clearances, or the possibility that such regulatory approvals may further delay the transaction or will not be received prior to June 30, 2019 (and either or both of the parties may not be willing to further waive their end date termination rights beyond June 30, 2019) or that materially burdensome or adverse regulatory conditions may be imposed or undesirable measures may be required in connection with any such regulatory approvals or clearances (including those conditions or measures that either or both of the parties may be unwilling to accept or undertake, as applicable); the risk that the parties will not be able to obtain other regulatory approvals or clearances, including in connection with a potential alternative funding structure or the current geo-political environment; the parties' inability to obtain any necessary regulatory approvals or clearances for the post-closing capital plan; the risk that a closing condition of the transaction may not be satisfied; existing and potential legal proceedings may be instituted against us in connection with the transaction that may delay the transaction, make it more costly or ultimately preclude it; the risk that the proposed transaction disrupts our current plans and operations as a result of the announcement and consummation of the transaction; certain restrictions during the pendency of the transaction that may impact our ability to pursue certain business opportunities or strategic transactions; continued availability of capital and financing to us before, or in the absence of, the consummation of the transaction; further rating agency actions and downgrades in our debt or financial strength ratings; changes in applicable laws or regulations; our ability to recognize the anticipated benefits of the transaction; the amount of the costs, fees, expenses and other charges related to the transaction, including costs and expenses related to conditions imposed in connection with regulatory approvals or clearances, which may be material; the risks related to diverting management's attention from our ongoing business operations; the merger agreement may be terminated in circumstances that would require us to pay China Oceanwide a fee; our ability to attract, recruit, retain and motivate current and prospective employees may be adversely affected; and disruptions and uncertainty relating to the transaction, whether or not it is completed, may harm our relationships with our employees, customers, distributors, vendors or other business partners, and may result in a negative impact on our business;

strategic risks in the event the proposed transaction with China Oceanwide is not consummated including: our inability to successfully execute alternative strategic plans to effectively address our current business challenges (including with respect to stabilizing our U.S. life insurance businesses, debt obligations, cost savings, ratings and capital); our inability to attract buyers for any businesses or

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other assets we may seek to sell, or securities we may seek to issue, in each case, in a timely manner and on anticipated terms; failure to obtain any required regulatory, stockholder and/or noteholder approvals or consents for such alternative strategic plans, or our challenges changing or being more costly or difficult to successfully address than currently anticipated or the benefits achieved being less than anticipated; inability to achieve anticipated cost-savings in a timely manner; and adverse tax or accounting charges; and our ability to increase the capital needed in our mortgage insurance businesses in a timely manner and on anticipated terms, including through business performance, reinsurance or similar transactions, asset sales, securities offerings or otherwise, in each case as and when required;

risks relating to estimates, assumptions and valuations including: inadequate reserves and the need to increase reserves (including as a result of any changes we may make in the future to our assumptions, methodologies or otherwise in connection with periodic or other reviews); risks related to the impact of our annual review of assumptions and methodologies relating to our long-term care insurance claim reserves and margin, including risks that additional information obtained in the future or other changes to assumptions or methodologies materially affect our margins; inaccurate models; deviations from our estimates and actuarial assumptions or other reasons in our long-term care insurance, life insurance and/or annuity businesses; accelerated amortization of deferred acquisition costs (DAC) and present value of future profits (PVFP) (including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with periodic or other reviews); adverse impact on our financial results as a result of projected profits followed by projected losses (as is currently the case with our long-term care insurance business); adverse impact on our results of operations, including the outcome of our annual review of the premium earnings pattern for our mortgage insurance businesses; and changes in valuation of fixed maturity and equity securities;

risks relating to economic, market and political conditions including: downturns and volatility in global economies and equity and credit markets; interest rates and changes in rates have adversely impacted, and may continue to materially adversely impact, our business and profitability; deterioration in economic conditions or a decline in home prices that adversely affect our loss experience in mortgage insurance; political and economic instability or changes in government policies; and fluctuations in foreign currency exchange rates and international securities markets;

regulatory and legal risks including: extensive regulation of our businesses and changes in applicable laws and regulations (including changes to tax laws and regulations); litigation and regulatory investigations or other actions; dependence on dividends and other distributions from our subsidiaries (particularly our international subsidiaries) and the inability of any subsidiaries to pay dividends or make other distributions to us, including as a result of the performance of our subsidiaries and insurance, regulatory or corporate law restrictions; adverse change in regulatory requirements, including risk-based capital; changes in regulations adversely affecting our international operations; inability to continue to maintain the private mortgage insurer eligibility requirements (PMIERS); inability of our U.S. mortgage insurance subsidiaries to meet minimum statutory capital requirements and hazardous financial condition standards; the influence of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and a small number of large mortgage lenders on the U.S. mortgage insurance market and adverse changes to the role or structure of Fannie Mae and Freddie Mac; adverse changes in regulations affecting our mortgage insurance businesses; inability to continue to implement actions to mitigate the impact of statutory reserve requirements; impact of additional regulations pursuant to the Dodd-Frank Wall Street Reform and

Consumer Protection Act; changes in tax laws; and changes in accounting and reporting standards;

liquidity, financial strength ratings, credit and counterparty risks including: insufficient internal sources to meet liquidity needs and limited or no access to capital (including the ability to obtain further financing under an additional secured term loan or credit facility); future adverse rating agency actions, including with respect to rating downgrades or potential downgrades or being put on review for potential downgrade, all of which could have adverse implications for us, including with respect to key business relationships, product offerings, business results of operations, financial condition and

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capital needs, strategic plans, collateral obligations and availability and terms of hedging, reinsurance and borrowings; defaults by counterparties to reinsurance arrangements or derivative instruments; defaults or other events impacting the value of our fixed maturity securities portfolio; and defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance;

operational risks including: inability to retain, attract and motivate qualified employees or senior management; ineffective or inadequate risk management in identifying, controlling or mitigating risks; reliance on, and loss of, key customer or distribution relationships; competition, including in our mortgage insurance businesses from government and government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations; and failure or any compromise of the security of our computer systems, disaster recovery systems and business continuity plans and failures to safeguard, or breaches of, its confidential information;

insurance and product-related risks including: our inability to increase premiums and associated benefit reductions sufficiently, and in a timely manner, on our in-force long-term care insurance policies, and charge higher premiums on policies, in each case, as currently anticipated and as may be required from time to time in the future (including as a result of our failure to obtain any necessary regulatory approvals or unwillingness or inability of policyholders to pay increased premiums and/or accept reduced benefits), including to offset any impact on our long term care insurance margins; availability, affordability and adequacy of reinsurance to protect us against losses; inability to realize anticipated benefits of our rescissions, curtailments, loan modifications or other similar programs in our mortgage insurance businesses; premiums for the significant portion of our mortgage insurance risk in-force with high loan-to-value ratios may not be sufficient to compensate us for the greater risks associated with those policies; decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations; increases in the use of alternatives to private mortgage insurance and reductions in the level of coverage selected; potential liabilities in connection with our U.S. contract underwriting services; and medical advances, such as genetic research and diagnostic imaging, and related legislation that impact policyholder behavior in ways adverse to us;

other risks including: impairments of or valuation allowances against our deferred tax assets; the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

risks relating to our common stock including: the continued suspension of payment of dividends; and stock price fluctuations.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Strategic Update

We continue to focus on improving business performance, addressing financial leverage and increasing financial and strategic flexibility across the organization. Our strategy includes maximizing our opportunities in our mortgage insurance businesses and stabilizing our U.S. life insurance businesses.

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On October 21, 2016, Genworth Financial, Inc. (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., a limited liability company incorporated in the People's Republic of China (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, pursuant to which, subject to the terms and conditions set forth therein, 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 (the Merger). 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.

Genworth Financial and China Oceanwide continue to work towards satisfying the closing conditions of the Merger as soon as possible. In December 2018 and January 2019, we received the remaining approvals from our U.S. domestic insurance regulators. These approvals had multiple conditions, including but not limited to, the Merger being consummated without the purchase of Genworth Life and Annuity Insurance Company (GLAIC) from Genworth Life Insurance Company (GLIC) by a Genworth intermediate holding company, which had been initially proposed and which we refer to as the GLAIC unstacking. Our U.S. domestic regulatory approvals included the approval from the Delaware Department of Insurance (DDOI). Genworth Financial and China Oceanwide worked with the DDOI and other regulators to obtain approval of the Merger without the GLAIC unstacking throughout the second half of 2018. As part of the DDOI approval, Genworth Financial and China Oceanwide agreed, following the Merger, Genworth Holdings, Inc. (Genworth Holdings) will contribute \$175 million to GLIC, which was previously committed by Genworth Financial to be used as partial consideration for the GLAIC unstacking. The \$175 million was originally scheduled to be contributed in three equal tranches, with the first contribution completed by the end of March 2019, the second contribution completed by the end of September 2019 and the final contribution completed by the end of January 2020. Due to the delay in closing the Merger, we did not make the March 2019 contribution. We will work with the DDOI on a revised timeline for the first contribution and the remaining amounts due thereafter, depending on the timing of the closing of the Merger. In addition, at or before the closing of the Merger, GLAIC will purchase from GLIC an intercompany note with a principal amount of \$200 million. This intercompany note was issued by Genworth Holdings to GLIC, with Genworth Holdings obligated to pay the principal amount on the maturity date of March 31, 2020. The purchase price will be at fair value, but not less than \$200 million. No changes will be made to the existing terms of the intercompany note, other than Genworth Holdings will now pay GLAIC the principal amount of the note at maturity. Likewise, the amount will continue to be eliminated in consolidation.

In October 2018, the National Development and Reform Commission (NDRC) of the People's Republic of China accepted China Oceanwide's filing in connection with the Merger Agreement, which concluded NDRC's review process and enables China Oceanwide to seek the clearance in China for currency conversion and the transfer of funds once all other regulatory approvals have been received.

In June 2018, the Committee on Foreign Investment in the United States (CFIUS) completed its review of the proposed transaction and concluded that there are no unresolved national security concerns with respect to the proposed transaction. The completion of the CFIUS review satisfied one of the conditions to closing the proposed transaction. In connection with the CFIUS review of the proposed transaction, Genworth Financial and China Oceanwide entered into an agreement to implement a data security risk mitigation plan, which includes, among other things, the use of a U.S. third-party service provider and an independent security monitor to protect the personal data

of Genworth Financial's policyholders and customers in the United States.

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The closing of the Merger remains subject to other conditions and approvals, including the required regulatory approval in Canada. In addition, China Oceanwide will need to receive clearance in China for currency conversion and the transfer of funds.

On April 29, 2019, Genworth Financial, Parent and Merger Sub entered into a tenth waiver and agreement (Tenth Waiver and Agreement) pursuant to which Genworth Financial and Parent each agreed to waive until June 30, 2019 its right to terminate the Merger Agreement and abandon the Merger in accordance with the terms of the Merger Agreement. The Tenth Waiver and Agreement extended the ninth waiver and agreement extension deadline of April 30, 2019 to allow additional time for the remaining regulatory approval and clearance processes.

China Oceanwide and Genworth have agreed on a capital investment plan under which China Oceanwide and/or its affiliates will contribute an aggregate of \$1.5 billion to Genworth over time following consummation of the Merger. This contribution is subject to the closing of the Merger and the receipt of required regulatory approvals. The \$1.5 billion contribution would be used to further improve our financial stability, which could include retiring debt due in 2020 and 2021 or enabling future growth opportunities. China Oceanwide has no current intention or future obligation to contribute additional capital to support our legacy long-term care insurance business. However, as discussed above, the parties have agreed following the closing of the Merger, Genworth Holdings would contribute \$175 million in aggregate to GLIC over time.

At this time Genworth Financial and China Oceanwide remain committed to satisfying the closing conditions under the Merger Agreement as soon as possible. However, if the parties are unable to satisfy the closing conditions by June 30, 2019 and are unable to reach an agreement as to a further extension of the deadline, then either party may terminate the Merger Agreement pursuant to its terms.

If the China Oceanwide transaction is completed, we will be a standalone subsidiary and our senior management team will continue to lead the business from our current headquarters in Richmond, Virginia. Likewise, we intend to maintain our existing portfolio of businesses, including our mortgage insurance businesses in Australia and Canada. Except for the specific monitoring and reporting required under the CFIUS data security risk mitigation plan, our day-to-day operations are not expected to change as a result of this transaction.

Strategic Alternatives

If the China Oceanwide transaction is not completed, we will continue to explore strategic alternatives and financing options to address our ongoing challenges. As a result of the recent performance of our long-term care and life insurance businesses and the charges we recorded in previous periods, absent any alternative commitment of external capital, we believe there would be: increased pressure on and potential further downgrades of our financial strength ratings, particularly for our mortgage insurance businesses, which could affect our ability to maintain our market share of the U.S. mortgage insurance industry and other limitations on our holding company liquidity and ability to service and/or refinance our holding company debt.

In the absence of the transaction with China Oceanwide, which we can neither predict nor guarantee, we may need to pursue strategic asset sales to address our debt maturities in 2020 and thereafter, including potential sales of our mortgage insurance businesses in Canada and/or Australia. We have and would continue to evaluate options to insulate our U.S. mortgage insurance business from additional ratings pressure, including a potential partial sale, in the event the transaction with China Oceanwide cannot be completed. Changes to our financial projections, including changes that anticipate planned asset sales, may negatively impact our ability to realize certain foreign tax credits or other deferred tax assets and have a resulting material adverse effect on our results of operations.

Ongoing Priorities

Stabilizing our U.S. life insurance businesses continues to be one of our long-term goals. We will continue to execute this objective primarily through our multi-year long-term care insurance in-force rate action plan.

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Increased premiums and associated benefit reductions on our legacy long-term care insurance policies are critical to the business. As previously disclosed, we are no longer seeking an unstacking of GLAIC as part of our long-term care insurance strategy. In addition, reducing debt will remain a high priority. We believe that increased financial support and our strengthened financial foundation resulting from the China Oceanwide transaction would provide us with more options to manage our debt maturities and reduce overall indebtedness, which in turn is intended to improve our credit and ratings profile over time. Finally, we also believe that the completion of the China Oceanwide transaction would allow us to place greater focus on the future of our long-term care and mortgage insurance businesses while continuing to service our existing policyholders.

Executive Summary of Financial Results

Below is an executive summary of our consolidated financial results for the periods indicated. Amounts below are net of taxes, unless otherwise indicated.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

We had net income available to Genworth Financial, Inc.'s common stockholders of \$174 million and \$112 million for the three months ended March 31, 2019 and 2018, respectively. Adjusted operating income available to Genworth Financial, Inc.'s common stockholders was \$121 million and \$125 million for the three months ended March 31, 2019 and 2018, respectively.

Our U.S. Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$124 million and \$111 million for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily attributable to higher insurance in-force and an increase investment income, partially offset by higher operating costs in the current year.

Our Canada Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$41 million and \$49 million for the three months ended March 31, 2019 and 2018, respectively. The decrease was primarily driven by changes in foreign exchange rates in the current year and from lower earned premiums largely related to refinements in premium recognition factors in the prior year that did not recur and lower mortgage insurance written on prime-based, individually underwritten residential mortgage loans (flow mortgage insurance) in recent years. The decrease was also attributable to an increase in acquisition and operating expenses, which included higher stock-based compensation expense in the current year.

Our Australia Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$14 million and \$19 million for the three months ended March 31, 2019 and 2018, respectively. The decrease was predominantly attributable to lower premiums largely from changes in foreign exchange rates in the current year and from the seasoning of our smaller, more recent in-force books of business. These decreases were partially offset by lower contract fees amortization in the current year.

Our U.S. Life Insurance segment had an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of \$5 million in both the three months ended March 31, 2019 and 2018. The adjusted operating loss available to Genworth Financial, Inc. s common stockholders for our long-term care insurance business decreased \$12 million mainly attributable to \$60 million of higher premiums and reduced benefits in the current year from in-force rate actions approved and implemented and from favorable development on prior year incurred but not reported claims. This was partially offset by lower claim terminations and higher severity and frequency of new claims in the current year. The adjusted operating loss available to Genworth Financial, Inc. s common stockholders for our life insurance business increased \$1 million mainly from the continued runoff of our term life insurance products and from higher lapses primarily associated with the large 20-year term life insurance blocks entering the post-level premium periods. These increases were mostly offset by lower mortality in the current year compared to the prior year in our term and universal life insurance products. Adjusted

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operating income available to Genworth Financial, Inc. s common stockholders decreased \$11 million in our fixed annuities business predominantly attributable to \$13 million of unfavorable charges in connection with loss recognition testing in our fixed immediate annuity products, partially offset by favorable mortality in the current year.

Our Runoff segment had adjusted operating income available to Genworth Financial, Inc. s common stockholders of \$20 million and \$10 million for the three months ended March 31, 2019 and 2018, respectively. The increase was predominantly from favorable equity market performance in the current year.

Corporate and Other Activities had an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of \$73 million and \$59 million for the three months ended March 31, 2019 and 2018, respectively. The increase in the loss was principally related to \$12 million of higher taxes in the current year associated with the Global Intangible Low Taxed Income (GILTI) provision of the Tax Cuts and Jobs Act (TCJA) and from \$13 million of unfavorable provisional tax adjustments. These decreases were partially offset by lower interest expense and operating costs in the current year.

Significant Developments

The periods under review include, among others, the following significant developments.

U.S. Mortgage Insurance

PMIERS Compliance. Our U.S. mortgage insurance business has been compliant with the original requirements under the private mortgage insurer eligibility requirements (PMIERS) since its introduction into the private mortgage insurance industry in 2015. These requirements set forth operational and financial requirements that mortgage insurers must meet in order to remain eligible to offer private mortgage insurance. On March 31, 2019, revisions to the original PMIERS became effective for our U.S. mortgage insurance business. The major revisions include the elimination of any credit for future premiums that had previously been allowed on insurance policies written in 2008 and earlier. Our U.S. mortgage insurance business had available assets of approximately 123% of the required assets under PMIERS as of March 31, 2019. The PMIERS sufficiency ratio was in excess of \$600 million of available assets above the requirements as of March 31, 2019.

Market Share. Our U.S. mortgage insurance business increased its market share during the first quarter of 2019 compared to the fourth quarter of 2018 principally from selective participation in forward commitment transactions and the continued successful rollout of its proprietary risk-based pricing engine, GenRATE. New insurance written increased 7% during the first quarter of 2019 compared to the first quarter of 2018 primarily driven by the increase in the estimated market share.

Canada Mortgage Insurance

Regulatory Capital. The Mortgage Insurer Capital Adequacy Test (MICAT) guideline was effective for our Canada mortgage insurance business on January 1, 2019. The MICAT guideline did not have a material

impact on our regulatory solvency as of March 31, 2019, as the impact of the elimination of the credit score update more than offset the 5% increase in the total asset requirement on existing insurance in-force. In addition, these new requirements should permit our mortgage insurance business in Canada to more closely align its actual capital levels with its targeted operating range going forward, which may allow for meaningful levels of capital redeployment in addition to regular quarterly dividends. As of March 31, 2019, our MICAT ratio under the framework was approximately 172%, which was above the supervisory target.

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U.S. Life Insurance

In-force rate actions in our long-term care insurance business. As part of our strategy for our long-term care insurance business, we have been implementing, and expect to continue to pursue, significant premium rate increases and associated benefit reductions on older generation blocks of business in order to bring those blocks closer to a break-even point over time and reduce the strain on earnings and capital. We are also requesting premium rate increases and associated benefit reductions on newer blocks of business, as needed, some of which may be significant, to help bring their loss ratios back towards their original pricing. For all of these in-force rate action filings, we received 24 filing approvals from nine states in the first quarter of 2019, representing a weighted-average increase of 62% on approximately \$241 million in annualized in-force premiums, or approximately \$150 million of incremental annual premiums.

Liquidity, Capital Resources and Intercompany Obligations

International Dividends. During the first quarter of 2019, our international subsidiaries paid \$47 million of dividends to Genworth Holdings, which was comprised of \$28 million of ordinary dividends and \$19 million of dividends attributable to share repurchases in our Canada and Australia mortgage insurance businesses. See **Item 2 Liquidity and Capital Resources** for additional details.

Genworth Holdings Cash and Targeted Cash Buffer. As of March 31, 2019, Genworth Holdings held \$361 million of cash, cash equivalents and restricted cash and \$44 million of unrestricted and restricted U.S. government securities. The \$405 million combined cash and liquid assets is below our targeted cash buffer of two times expected annual external debt interest payments by approximately \$100 million. See **Item 2 Liquidity and Capital Resources** for additional details.

Intercompany Note Maturity. Genworth Holdings currently has an intercompany note due to GLIC on March 31, 2020 with a principal amount of \$200 million. In conjunction with the Merger with China Oceanwide and as discussed above, GLAIC will purchase from GLIC this intercompany note at fair value, but not less than \$200 million.

Financial Strength Ratings

There were no changes in the financial strength ratings of our insurance subsidiaries subsequent to February 27, 2019, the date we filed our 2018 Annual Report on Form 10-K. For a discussion of the financial strength ratings of our insurance subsidiaries, see **Item 1 Financial Strength Ratings** in our 2018 Annual Report on Form 10-K.

Consolidated

General Trends and Conditions

The stability of both the financial markets and global economies in which we operate impacts the sales, revenue growth and profitability trends of our businesses as well as the value of assets and liabilities. The U.S. and international financial markets in which we operate have been impacted by concerns regarding regulatory changes, global trade, modest global growth and the rate and strength of recovery. During 2018, the global economy improved

and most countries in which we conduct business saw improved levels of gross domestic product (GDP) growth. The U.S. GDP grew in the first quarter of 2019 at an estimated 3.2%, driven in part by strong consumer spending. This GDP growth was unexpected given that many economic forecasts predicted the U.S. economy would slow down beginning in the first quarter of 2019 and continue this slower growth path for the remainder of the year. In spite of the better than expected first quarter of 2019 GDP growth, many economic uncertainties remain, including, U.S. and China trade tensions, fluctuating oil prices, declining commodity prices and global growth concerns. Historic low interest rates began to rise in 2018 given actions taken by the U.S. Federal Reserve and other central banks, although long-term interest rates remain at low levels and interest rates

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reversed course from their upward trend and declined during the first quarter of 2019. The U.S. Federal Reserve did not increase rates during the first quarter of 2019 and signaled that they might not raise rates again until 2020. Prior to the first quarter of 2019, the U.S. Federal Reserve projected two additional rate increases in 2019 and one in 2020. The modification in the forecast relates to the economic concerns relating to ongoing global trade tensions, declining commodity prices, slower global growth and a negative inflation outlook. Given this forecast, we expect interest rates will remain low as compared to historical norms. Likewise, we remain uncertain at the pace in which future interest rate increases will occur and its ultimate impact on our businesses. Near term inflation remains relatively stable but long-term forecasts indicate signs of volatility, which has resulted in a negative outlook. The U.S. Treasury yield curve steepened in the first quarter of 2019 with short-term interest rates decreasing at a higher rate than long-term interest rate decreases. Portions of the U.S. Treasury yield curve inverted in late March 2019, as the yield on the U.S. 10-year Treasury note dipped below the yield on the 3-month Treasury bill, though subsequent to quarter end this inversion normalized. Credit markets generally recovered from spread widening seen in the fourth quarter of 2018, with spreads tightening in the first quarter of 2019 driven by healthy consumer demand, corporate profits, investor demand for bonds and lower government bond yields. For a discussion of the risks associated with interest rates, see Item 1A Risk Factors. Interest rates and changes in rates could materially adversely affect our business and profitability in our 2018 Annual Report on Form 10-K.

Varied levels of economic growth, coupled with uncertain economic outlooks, changes in government policy, regulatory and tax reforms, and other changes in market conditions, influenced, and we believe will continue to influence, investment and spending decisions by consumers and businesses as they weigh their consumption, debt, capital and risk profiles in response to these conditions. These trends change as investor confidence in the markets and the outlook for some consumers and businesses shift. As a result, our sales, revenues and profitability trends of certain insurance and investment products as well as the value of assets and liabilities have been and could be further impacted going forward. In particular, factors such as government spending, monetary policies, the volatility and strength of the capital markets, further changes in tax policy and/or in U.S. tax legislation, international trade and the impact of global financial regulation reform will continue to affect economic and business outlooks, level of interest rates and consumer behaviors moving forward.

The U.S. and international governments, the U.S. Federal Reserve, other central banks and other legislative and regulatory bodies have taken certain actions in past years to support the economy and capital markets, influence interest rates, influence housing markets and mortgage servicing and provide liquidity to promote economic growth. These include various mortgage restructuring programs implemented or under consideration by the GSEs, lenders, servicers and the U.S. government. Outside of the United States, various governments and central banks have taken actions to stimulate economies, stabilize financial systems and improve market liquidity. These policies and actions have generally been supportive to the worldwide economy, however, a U.S. or global recession or regional or global financial crisis could occur which would materially and adversely affect our business, financial condition and results of operations.

Consolidated Results of Operations

The following is a discussion of our consolidated results of operations. For a discussion of our segment results, see Results of Operations and Selected Financial and Operating Performance Measures by Segment.

Table of Contents**Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018**

The following table sets forth the consolidated results of operations for the periods indicated:

(Amounts in millions)	Three months ended March 31,		Increase (decrease) and percentage change 2019 vs. 2018	
	2019	2018		
Revenues:				
Premiums	\$ 1,114	\$ 1,140	\$ (26)	(2)%
Net investment income	829	804	25	3%
Net investment gains (losses)	74	(31)	105	NM ⁽¹⁾
Policy fees and other income	187	202	(15)	(7)%
Total revenues	2,204	2,115	89	4%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,301	1,311	(10)	(1)%
Interest credited	147	156	(9)	(6)%
Acquisition and operating expenses, net of deferrals	251	240	11	5%
Amortization of deferred acquisition costs and intangibles	91	104	(13)	(13)%
Interest expense	72	76	(4)	(5)%
Total benefits and expenses	1,862	1,887	(25)	(1)%
Income before income taxes	342	228	114	50%