

GENWORTH FINANCIAL INC  
Form 10-Q  
October 31, 2018  
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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 September 30, 2018**

**OR**

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

**For the transition period from \_\_\_\_\_ to**

**Commission file number 001-32195**

**GENWORTH FINANCIAL, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of

**80-0873306**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification Number)**

**6620 West Broad Street**

**Richmond, Virginia**  
(Address of Principal Executive Offices)

**23230**  
(Zip Code)

**(804) 281-6000**

**(Registrant's Telephone Number, Including Area Code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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



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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)**

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

Weighted-average common shares outstanding:

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

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

Supplemental disclosures:

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

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

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

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

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

See Notes to Condensed Consolidated Financial Statements



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

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

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in millions)

(Unaudited)

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

|  |      |      |      |      |
|--|------|------|------|------|
| Repurchase of subsidiary shares                          |      |      | (31) | (31) |
| Comprehensive income (loss):                             |      |      |      |      |
| Net income   | 464  | 464  | 198  | 662  |
| Other comprehensive income (loss), net of taxes          | (59) | (59) | 115  | 56   |
| Total comprehensive income                               |      | 405  | 313  | 718  |
| Dividends to noncontrolling interests                    |      |      | (92) | (92) |
| Stock-based compensation expense and exercises and other | 11   | 11   | 5    | 16   |

Balances as of  
September 30, 2017    \$   1   \$ 11,973   \$   3,035   \$   760   \$ (2,700)   \$ 13,069   \$   2,018   \$ 15,087

See Notes to Condensed Consolidated Financial Statements

**Table of Contents****GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in millions)****(Unaudited)**

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

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

See Notes to Condensed Consolidated Financial Statements

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

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

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

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

We operate our business through the following five operating segments:

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

bulk writings being prime-based.

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

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

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



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

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

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

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

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

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

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

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

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

*Accounting Pronouncements Not Yet Adopted*

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

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

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

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

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

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

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

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

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

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

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

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



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

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

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

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

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

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

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

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***(b) Net Investment Gains (Losses)*

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

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

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

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

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

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

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

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

*(c) Unrealized Investment Gains and Losses*

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

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

- (1) Excludes foreign exchange.

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

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

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



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

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

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***(d) Fixed Maturity and Equity Securities*

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

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

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|  |           |          |       |          |           |
|--|-----------|----------|-------|----------|-----------|
| Transportation                                     | 690       | 43       |       | (13)     | 720       |
| Other  | 2,542     | 108      |       | (25)     | 2,625     |
| Total non-U.S. corporate                           | 11,907    | 450      |       | (184)    | 12,173    |
| Residential mortgage-backed                        | 3,125     | 123      | 13    | (39)     | 3,222     |
| Commercial mortgage-backed                         | 3,217     | 38       |       | (99)     | 3,156     |
| Other asset-backed                                 | 3,066     | 4        | 1     | (21)     | 3,050     |
| Total available-for-sale fixed maturity securities | \$ 57,498 | \$ 2,870 | \$ 14 | \$ (978) | \$ 59,404 |

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

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

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

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

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

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

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

position

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(e) Commercial Mortgage Loans*

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

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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:

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(f) Restricted Commercial Mortgage Loans Related To Securitization Entities*

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

*(g) Limited Partnerships or Similar Entities*

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



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**(5) Derivative Instruments**

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

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

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

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

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

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

| (Number of policies)                        | Measurement | December 31,<br>2017 | Additions | Maturities/<br>terminations | September 30,<br>2018 |
|---|-------------|----------------------|-----------|-----------------------------|-----------------------|
| <b>Derivatives not designated as hedges</b> |             |                      |           |                             |                       |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

*Derivatives Not Designated As Hedges*

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

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

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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:

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

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

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

*Derivative Counterparty Credit Risk*

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

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

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

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

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

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

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

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

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

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

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

**(6) Fair Value of Financial Instruments**

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





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

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

Ordinary course of business lending  
commitments

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

*Recurring Fair Value Measurements*

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

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



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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 September 30, 2018:

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

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

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

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

*Securities lending collateral*

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

*Short-term investments*

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

**Level 3 measurements**

*Fixed maturity securities*

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

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

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

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

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

*Restricted other invested assets related to securitization entities*

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

*GMWB embedded derivatives*

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

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

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

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

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

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

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

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

*Fixed index annuity embedded derivatives*

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

*Indexed universal life embedded derivatives*

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

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



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*Borrowings related to securitization entities*

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

**Derivatives**

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

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

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

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

classified as Level 2.

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> 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.

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

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



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

<sup>(1)</sup> 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:

|                                   | <b>Total realized and unrealized gains (losses)</b> |                               | <b>Total gains (losses) included in net income</b> |  |
|-----------------------------------|---|-------------------------------|--|--|
|                                   | <b>Beginning balance as of July 1, 2018</b>         | <b>Included in net income</b> | <b>Included in net income</b>                      | <b>Ending balance as of September 30, 2018</b> |
| <b>(Amounts in millions)</b>      | <b>2018</b>   | <b>income</b>                 | <b>OCI Purchases</b>                               | <b>Sales Issuances Settlements</b>             |
|                                   |   |                               |  | <b>Level 3 (1)</b>                             |
| <b>Fixed maturity securities:</b> |   |                               |  |  |
| State and political subdivisions  | \$ 52   | \$ 1                          | \$ 11  | \$ (11)  |
| U.S. corporate:                   |   |                               |  |  |
| Utilities                         | 622   | (11)                          | 20   |  |
| Energy                            | 138   |                               |  | (14)   |
| Finance and insurance             | 458   | (2)                           | 18   | (2)  |
| Consumer non-cyclical             | 79  | (1)                           |  | (3)  |
| Technology and communications     | 12  | (1)                           | 1  | 7  |
| Industrial                        | 40  |                               |  | (7)  |
| Capital goods                     | 119   | (1)                           |  |  |
| Consumer cyclical                 | 254   | (1)                           | (1)  | (5)  |
| Transportation                    | 56  |                               |  | (1)  |
| Other                             | 153   | (1)                           |  | (1)  |
| <b>Total U.S. corporate</b>       | <b>1,931</b>  | <b>(18)</b>                   | <b>39</b>  | <b>(1)</b>                                     |
| <b>Non-U.S. corporate:</b>        |   |                               |  |  |
| Utilities                         | 333   | (3)                           |  | (7)  |
| Energy                            | 175   |                               |  | (11)   |
| Finance and insurance             | 150   | 1                             | (2)  | 25   |

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

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

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

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## GENWORTH FINANCIAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

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

|  | <b>Total realized and unrealized gains (losses)</b> |                               | <b>Total gains (losses) included in net income</b> |  |
|--|---|-------------------------------|--|--|
|  | <b>Beginning balance as of January 1, 2018</b>      | <b>Included in net income</b> | <b>Ending balance as of September 30, 2018</b>     | <b>tributable to assets still held</b> |
| <b>(Amounts in millions)</b>                                   | <b>2018</b>   | <b>income</b>                 | <b>OCI</b>   | <b>Purchases</b>                       |
|  |   |                               |  | <b>Sales</b>                           |
|  |   |                               |  | <b>Issuances</b>                       |
|  |   |                               |  | <b>Settlements</b>                     |
|  |   |                               |  | <b>Level 3</b>                         |
|  |   |                               |  | <b>Level 3<sup>(1)</sup></b>           |
|  |   |                               |  |  |
| Fixed maturity securities:                                     |   |                               |  |  |
| U.S. government, agencies and government-sponsored enterprises | \$ 1  | \$                            | \$   | \$                                     |
| State and political subdivisions                               | 37  | 2                             | 7  | 18                                     |
| U.S. corporate:  |   |                               |  |  |
| Utilities  | 574   | (1)                           | (36)   | 89                                     |
| Energy   | 147   |                               | (5)  | 22                                     |
| Finance and insurance  | 626   | 1                             | (69)   | 44                                     |
| Consumer non-cyclical  | 81  |                               | (3)  |  |
| Technology and communications                                  | 73  |                               | (6)  | 5                                      |
| Industrial   | 39  |                               | 1  |  |
| Capital goods  | 121   |                               | (10)   | 24                                     |
| Consumer cyclical  | 262   |                               | (11)   | 17                                     |
| Transportation   | 60  |                               | (1)  |  |
| Other  | 169   |                               | (2)  | (10)                                   |
| Total U.S. corporate   | 2,152   |                               | (142)  | 201                                    |

## Non-U.S. corporate:

|                               |     |   |      |    |     |      |    |      |     |   |
|-------------------------------|-----|---|------|----|-----|------|----|------|-----|---|
| Utilities                     | 343 |   | (16) | 22 |     | (20) | 15 | (21) | 323 |   |
| Energy                        | 176 |   | (6)  | 23 |     | (29) | 25 |      | 189 |   |
| Finance and insurance         | 161 | 3 | (13) | 1  |     | (2)  |    | (1)  | 149 | 3 |
| Consumer non-cyclical         | 124 |   | (4)  |    |     | (13) |    |      | 107 |   |
| Technology and communications | 29  |   |      | 10 |     | (13) |    |      | 26  |   |
| Industrial                    | 116 |   | (5)  | 3  |     | (10) |    | (25) | 79  |   |
| Capital goods                 | 191 | 1 | (6)  |    |     | (21) |    |      | 165 | 1 |
| Consumer cyclical             | 54  |   | (3)  |    | (1) | (3)  |    |      | 47  |   |
| Transportation                | 170 |   | (8)  | 38 |     |      | 18 | (17) | 201 |   |
| Other                         | 52  |   | (4)  | 33 |     |      |    |      | 81  |   |

|                          |       |   |      |     |     |       |    |      |       |   |
|--------------------------|-------|---|------|-----|-----|-------|----|------|-------|---|
| Total non-U.S. corporate | 1,416 | 4 | (65) | 130 | (1) | (111) | 58 | (64) | 1,367 | 4 |
|--------------------------|-------|---|------|-----|-----|-------|----|------|-------|---|

## Residential

|                            |     |  |     |    |  |      |    |       |     |  |
|----------------------------|-----|--|-----|----|--|------|----|-------|-----|--|
| mortgage-backed            | 77  |  | (1) | 29 |  | (1)  | 11 | (71)  | 44  |  |
| Commercial mortgage-backed | 30  |  | (2) | 53 |  |      | 26 | (32)  | 75  |  |
| Other asset-backed         | 237 |  | (3) | 86 |  | (74) | 54 | (149) | 151 |  |

## Total fixed maturity securities

|  |       |   |       |     |      |       |     |       |       |   |
|--|-------|---|-------|-----|------|-------|-----|-------|-------|---|
|  | 3,950 | 6 | (206) | 499 | (27) | (433) | 199 | (380) | 3,608 | 7 |
|--|-------|---|-------|-----|------|-------|-----|-------|-------|---|

|                   |    |  |  |    |     |  |  |  |    |  |
|-------------------|----|--|--|----|-----|--|--|--|----|--|
| Equity securities | 44 |  |  | 10 | (4) |  |  |  | 50 |  |
|-------------------|----|--|--|----|-----|--|--|--|----|--|

## Other invested assets:

## Derivative assets:

|                      |    |    |  |    |  |      |  |  |    |    |
|----------------------|----|----|--|----|--|------|--|--|----|----|
| Equity index options | 80 | 12 |  | 44 |  | (57) |  |  | 79 | 10 |
|----------------------|----|----|--|----|--|------|--|--|----|----|

|                         |    |    |  |    |  |      |  |  |    |    |
|-------------------------|----|----|--|----|--|------|--|--|----|----|
| Total derivative assets | 80 | 12 |  | 44 |  | (57) |  |  | 79 | 10 |
|-------------------------|----|----|--|----|--|------|--|--|----|----|

## Total other invested assets

|  |    |    |  |    |  |      |  |  |    |    |
|--|----|----|--|----|--|------|--|--|----|----|
|  | 80 | 12 |  | 44 |  | (57) |  |  | 79 | 10 |
|--|----|----|--|----|--|------|--|--|----|----|

## Reinsurance

|                            |    |     |  |  |  |   |  |  |    |     |
|----------------------------|----|-----|--|--|--|---|--|--|----|-----|
| recoverable <sup>(2)</sup> | 14 | (5) |  |  |  | 2 |  |  | 11 | (5) |
|----------------------------|----|-----|--|--|--|---|--|--|----|-----|

|                      |          |       |          |        |         |      |          |        |          |          |       |
|----------------------|----------|-------|----------|--------|---------|------|----------|--------|----------|----------|-------|
| Total Level 3 assets | \$ 4,088 | \$ 13 | \$ (206) | \$ 553 | \$ (31) | \$ 2 | \$ (490) | \$ 199 | \$ (380) | \$ 3,748 | \$ 12 |
|----------------------|----------|-------|----------|--------|---------|------|----------|--------|----------|----------|-------|

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

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



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## GENWORTH FINANCIAL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

- (1) The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads, as well as changes in the industry sectors assigned to specific securities.
- (2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

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

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

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

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

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

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

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

Derivative assets:

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

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

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

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

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

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

|                                  |        |    |       |        |
|----------------------------------|--------|----|-------|--------|
| Derivative liabilities:          |        |    |       |        |
| Interest rate swaps              | 25     |    | 25    |        |
| Equity return swaps              | 2      |    | 2     |        |
| Other foreign currency contracts | 20     |    | 20    |        |
| Total derivative liabilities     | 47     |    | 47    |        |
| Total liabilities                | \$ 730 | \$ | \$ 47 | \$ 683 |

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

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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<br>balance<br>as of<br>July 1,<br>2018 | Total<br>realized<br>and<br>unrealized<br>(gains)<br>losses |                       |    |    | Purchases | Sales  | Issuances | Settlements | Transfer        |                      | Ending<br>balance<br>as of<br>September 30,<br>2018 | Total (gains)<br>losses<br>included<br>in<br>net<br>(income)<br>attributable<br>to<br>liabilities<br>still<br>held |
|--|--|---|-----------------------|----|----|-----------|--------|-----------|-------------|-----------------|----------------------|---|--|
|  |  | Included<br>in<br>net (income)                              | Included<br>in<br>OCI |    |    |           |        |           |             | into<br>Level 3 | out<br>of<br>Level 3 |   |  |
| Policyholder account<br>balances:              |  |   |                       |    |    |           |        |           |             |                 |                      |   |  |
| GMWB embedded<br>derivatives <sup>(1)</sup>    | \$ 235   | \$ (41)   | \$                    | \$ | \$ | \$ 7      | \$     | \$        | \$          | \$              | \$                   | \$ 201  | \$ (42)  |
| Fixed index annuity<br>embedded derivatives    | 420  | 29  |                       |    |    |           |        |           | (3)         |                 |                      | 446   | 29   |
| Indexed universal life<br>embedded derivatives | 13   | (3)   |                       |    |    |           | 3      |           |             |                 |                      | 13  | (3)  |
| Total policyholder account<br>balances         | 668  | (15)  |                       |    |    |           | 10     |           | (3)         |                 |                      | 660   | (16)   |
| Total Level 3 liabilities                      | \$ 668   | \$ (15)   | \$                    | \$ | \$ | \$ 10     | \$ (3) | \$        | \$          | \$              | \$                   | \$ 660  | \$ (16)  |

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

| (Amounts in millions) | Beginning<br>balance<br>as of | Total<br>realized<br>and | Purchases | Sales | Issuances | Settlements | Transfer<br>into<br>Level | Transfer<br>out<br>of | Ending<br>balance<br>as of | Total (gains)<br>losses<br>included |
|-----------------------|-------------------------------|--------------------------|-----------|-------|-----------|-------------|---------------------------|-----------------------|----------------------------|-------------------------------------|
|-----------------------|-------------------------------|--------------------------|-----------|-------|-----------|-------------|---------------------------|-----------------------|----------------------------|-------------------------------------|



|  | July 1,<br>2017 | unrealized<br>(gains)<br>losses<br>Included<br>in net<br>income | OCI | Level 3 | September 30, in<br>net<br>(income)<br>attributable<br>to<br>liabilities<br>still<br>held |
|--|-----------------|---|-----|---------|---|
| Policyholder account<br>balances:                |                 |   |     |         |   |
| GMWB embedded<br>derivatives <sup>(1)</sup>      | \$ 281          | \$ (31)   | \$  | \$ 7    | \$ 257  |
| Fixed index annuity<br>embedded derivatives      | 376             | 21  |     | (3)     | 394   |
| Indexed universal life<br>embedded derivatives   | 13              | (2)   |     | 3       | 14  |
| Total policyholder account<br>balances           | 670             | (12)  |     | 10      | 665   |
| Borrowings related to<br>securitization entities | 12              |   |     |         | 12  |
| Total Level 3 liabilities                        | \$ 682          | \$ (12)   | \$  | \$ 10   | \$ 677  |

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

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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<br>balance<br>as of<br>January<br>1,<br>2018 | Total<br>realized<br>and<br>unrealized<br>(gains)<br>losses |                | Purchases | Sales | Issuances | Settlements | Transfer           |                         | Ending<br>balance<br>as of<br>September<br>30, 2018 | Total (gains)<br>losses<br>included<br>in<br>net<br>(income)<br>attributable<br>to<br>liabilities<br>still<br>held |
|--|--|---|----------------|-----------|-------|-----------|-------------|--------------------|-------------------------|---|--|
|  |  | Included<br>in  | Included<br>in |           |       |           |             | into<br>Level<br>3 | out<br>of<br>Level<br>3 |   |  |
| Policyholder account<br>balances:              |  |   |                |           |       |           |             |                    |                         |   |  |
| GMWB embedded<br>derivatives <sup>(1)</sup>    | \$ 250   | \$ (71)   | \$             | \$        | \$    | \$ 22     | \$          | \$                 | \$                      | \$ 201  | \$ (68)  |
| Fixed index annuity<br>embedded derivatives    | 419  | 36  |                |           |       |           | (9)         |                    |                         | 446   | 36   |
| Indexed universal life<br>embedded derivatives | 14   | (10)  |                |           |       | 9         |             |                    |                         | 13  | (10)   |
| Total policyholder account<br>balances         | 683  | (45)  |                |           |       | 31        | (9)         |                    |                         | 660   | (42)   |
| Total Level 3 liabilities                      | \$ 683   | \$ (45)   | \$             | \$        | \$    | \$ 31     | \$ (9)      | \$                 | \$                      | \$ 660  | \$ (42)  |

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

| (Amounts in millions) | Beginning<br>balance<br>as | Total<br>realized<br>and | Purchases | Sales | Issuances | Settlements | Transfer<br>into<br>Level | Transfer<br>out<br>of | Ending<br>balance<br>as of | Total (gains)<br>losses<br>included |
|-----------------------|----------------------------|--------------------------|-----------|-------|-----------|-------------|---------------------------|-----------------------|----------------------------|-------------------------------------|
|-----------------------|----------------------------|--------------------------|-----------|-------|-----------|-------------|---------------------------|-----------------------|----------------------------|-------------------------------------|

|  | of<br>January 1,<br>2017 | unrealized<br>(gains)<br>losses<br>Included<br>in<br>net (income)<br>OCI |    |    |    |       |        | 3<br>Level<br>3 | September 30, 2017 | in<br>net<br>(income)<br>attributable<br>to<br>liabilities<br>still<br>held |
|--|--------------------------|--|----|----|----|-------|--------|-----------------|--------------------|---|
| Policyholder account<br>balances:                |                          |  |    |    |    |       |        |                 |                    |   |
| GMWB embedded<br>derivatives <sup>(1)</sup>      | \$ 303                   | \$ (67)  | \$ | \$ | \$ | \$ 21 | \$     | \$              | \$ 257             | \$ (64)   |
| Fixed index annuity<br>embedded derivatives      | 344                      | 57   |    |    |    |       | (7)    |                 | 394                | 57  |
| Indexed universal life<br>embedded derivatives   | 11                       | (5)  |    |    |    | 8     |        |                 | 14                 | (5)   |
| Total policyholder account<br>balances           | 658                      | (15)   |    |    |    | 29    | (7)    |                 | 665                | (12)  |
| Borrowings related to<br>securitization entities | 12                       | 1  |    |    |    |       | (1)    |                 | 12                 | 1   |
| Total Level 3 liabilities                        | \$ 670                   | \$ (14)  | \$ | \$ | \$ | \$ 29 | \$ (8) | \$              | \$ 677             | \$ (11)   |

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

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fair value and the related income statement line item in which these gains and losses were presented for the periods indicated:

| <b>(Amounts in millions)</b>  | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Total realized and unrealized (gains) losses included in net (income):                |   |             |  |             |
| Net investment income   | \$  | \$          | \$   | \$          |
| Net investment (gains) losses   | (15)  | (12)        | (45)                                       | (14)        |
| Total   | \$ (15)                                     | \$ (12)     | \$ (45)                                    | \$ (14)     |
| Total (gains) losses included in net (income) attributable to liabilities still held: |   |             |  |             |
| Net investment income   | \$  | \$          | \$   | \$          |
| Net investment (gains) losses   | (16)  | (12)        | (42)                                       | (11)        |
| Total   | \$ (16)                                     | \$ (12)     | \$ (42)                                    | \$ (11)     |

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.

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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 September 30, 2018:

| (Amounts in millions)                       | Valuation technique        | Fair value | Unobservable input                    | Range       | Weighted-average |
|---|----------------------------|------------|---------------------------------------|-------------|------------------|
| Policyholder account balances:              |                            |            |                                       |             |                  |
|   |                            |            | Withdrawal utilization rate           | 42%-87%     | 68%              |
|   |                            |            | Lapse rate                            | 2%-9%       | 4%               |
|   |                            |            | Non-performance risk (credit spreads) | 16bps-83bps | 66bps            |
| GMWB embedded derivatives <sup>(1)</sup>    | Stochastic cash flow model | \$ 201     | Equity index volatility               | 14%-24%     | 20%              |
| Fixed index annuity embedded derivatives    | Option budget method       | \$ 446     | Expected future interest credited     | %-3%        | 2%               |
| Indexed universal life embedded derivatives | Option budget method       | \$ 13      | Expected future interest credited     | 3%-9%       | 6%               |

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

**(7) Liability for Policy and Contract Claims**

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 nine months ended September 30, |          |
|--|--|----------|
|  | 2018   | 2017     |
| Beginning balance                      | \$ 9,594   | \$ 9,256 |
| Less reinsurance recoverables          | (2,419)  | (2,409)  |
| Net beginning balance                  | 7,175  | 6,847    |
| Incurred related to insured events of: |  |          |
| Current year                           | 2,828  | 2,748    |
| Prior years                            | (243)  | (306)    |

|  |          |          |
|--|----------|----------|
| Total incurred                                       | 2,585    | 2,442    |
| Paid related to insured events of:                   |          |          |
| Current year   | (708)    | (755)    |
| Prior years  | (1,790)  | (1,746)  |
| Total paid   | (2,498)  | (2,501)  |
| Interest on liability for policy and contract claims | 248      | 223      |
| Foreign currency translation                         | (18)     | 27       |
| Net ending balance                                   | 7,492    | 7,038    |
| Add reinsurance recoverables                         | 2,352    | 2,346    |
| Ending balance                                       | \$ 9,844 | \$ 9,384 |

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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 nine months ended September 30, 2018 and 2017, the favorable development of \$243 million and \$306 million, respectively, related to insured events of prior years was primarily attributable to favorable claim terminations, including pending claims that terminate before becoming an active claim, in our long-term care insurance business. The favorable development for the nine months ended September 30, 2018 and 2017, was also impacted by our mortgage insurance businesses, primarily from an improvement in net cures and aging of existing claims, including a favorable reserve adjustment of \$26 million in our U.S. mortgage insurance business during the second quarter of 2018.

**(8) Income Taxes**

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

|  | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Statutory U.S. federal income tax rate       | 21.0%                                       | 35.0%       | 21.0%                                      | 35.0%       |
| Increase (reduction) in rate resulting from: |   |             |  |             |
| TCJA, impact from change in tax rate         |   |             | 2.2  |             |
| Swaps terminated prior to the TCJA           | 3.5   |             | 3.3  |             |
| TCJA, impact on foreign operations           | (3.6)                                       |             | (1.1)                                      |             |
| Effect of foreign operations                 | 3.2   | (2.0)       | 3.2  | (1.3)       |
| Valuation allowance                          | (0.8)                                       |             | (1.1)                                      |             |
| Provision to return adjustments              | 0.2   |             | (0.6)                                      |             |
| Other, net                                   | (0.5)                                       | 2.5         | 0.6  | 0.4         |
| Effective rate                               | 23.0%                                       | 35.5%       | 27.5%                                      | 34.1%       |

The decrease in the effective tax rate for the three and nine months ended September 30, 2018 was primarily attributable to the enactment of the TCJA, which includes a change in the U.S. corporate federal income tax rate from 35% to 21%. The decrease for the three months ended September 30, 2018 was also attributable to provision to return adjustments recorded in the current year primarily related to the mandatory repatriation rules of the TCJA. These decreases were partially offset by the effect of foreign operations, which had an overall increase on the effective tax

rate as our primary foreign subsidiaries are now in jurisdictions with higher statutory tax rates than the United States. These decreases were also partially offset by tax expense related to gains on forward starting swaps settled prior to the enactment of the TCJA, which are tax effected at 35% as they are amortized into net investment income.

As of December 31, 2017, as prescribed by the SEC's Staff Accounting Bulletin (SAB) 118, we recorded provisional estimates of the tax impact of certain changes in tax law under the TCJA. However, for other changes in the tax law where we were unable to record a reasonable estimate, no amounts were recorded.



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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

As of September 30, 2018, we are still in the process of completing the accounting of our provisional estimates and refining our computations as follows:

*Deferred tax assets and liabilities*

We recorded a provisional tax benefit of \$154 million in 2017 related to remeasurement of certain deferred tax assets and liabilities as a result of the newly enacted tax rate. The Internal Revenue Service has indicated that additional guidance will be forthcoming with respect to several technical areas within the TCJA, which could affect the measurement of these balances or potentially give rise to new deferred tax amounts. During the second quarter of 2018, we recorded a provisional tax expense of \$19 million related to a revaluation of deferred tax assets and liabilities on our foreign subsidiaries in light of the TCJA. This amount is considered provisional and additional refinements to the calculation may be required.

*Foreign tax effects*

We recorded a provisional tax expense of \$63 million in 2017 related to the one-time transition tax on mandatory deemed repatriation of earnings and profits ( E&P ). During the third quarter of 2018, we recorded a provisional tax benefit of \$10 million related to the one-time transition tax as we have refined our calculations of post-1986 foreign E&P previously deferred from U.S. federal taxation, related tax pools and the amounts held in cash and other specified assets. As of September 30, 2018, we believe the accounting for this item is complete.

*Insurance reserve transition adjustment*

We recorded a provisional reclassification in deferred tax assets and liabilities in the amount of \$134 million in 2017 related to the transition adjustment required under the TCJA with respect to life insurance policyholder reserves. We continue to refine our insurance reserve calculations and apply the new reserving rules under the TCJA on a product level basis. As of September 30, 2018, we updated our provisional estimate and identified a measurement period increase to this reclassification of \$6 million which has been reflected in our consolidated balance sheet as of September 30, 2018. This measurement period adjustment had no impact on net income, and we will continue to refine this estimate throughout the measurement period.

As of September 30, 2018, we are still in the process of completing the accounting for the following areas for which a reasonable estimate could not be made.

*Foreign tax effects*

We are still in the process of analyzing the impact of the Global Intangible Low Taxed Income ( GILTI ) and Base Erosion Anti-Abuse Tax ( BEAT ), including accounting policy elections. As part of this analysis, we are evaluating several alternatives for our future tax filings in light of the GILTI provisions. The options we are considering may have a material impact on U.S. and foreign deferred taxes, including potential valuation allowances related to the

realization of deferred tax assets, but we have not yet determined an estimate. During the nine months ended September 30, 2018, we have included the current tax effects of GILTI and BEAT taxes in current year earnings, but we have not yet made a policy election with respect to the accounting for the potential deferred tax effects of the GILTI tax. Accordingly, no measurement period adjustment has been recorded and any measurement period adjustment will be recorded in the fourth quarter of 2018.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*State tax effects*

We have not analyzed certain areas of state income taxes, including the treatment of the one-time transition tax. Accordingly, no reasonable estimate can be made, and no measurement period adjustment has been recorded.

Further regulatory guidance related to the TCJA is expected to be issued in 2018 which may result in changes to our current estimates. Any revisions to the estimated impacts of the TCJA will be recorded in the fourth quarter of 2018.

**(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 and discontinued operations.

On December 22, 2017, the TCJA was signed into law. The TCJA reduced the U.S. corporate federal income tax rate to 21% effective for taxable years beginning on January 1, 2018 and migrated the worldwide tax system to a territorial international tax system. Therefore, beginning on January 1, 2018 we taxed our international businesses at their local statutory tax rates and our domestic businesses at the new enacted tax rate of 21%. We allocate our consolidated provision for income taxes to our operating segments. Our allocation methodology applies a specific 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 income. 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.

The annually-determined tax rates and adjustments to each segment's provision for income taxes are estimates which are subject to review and could change from year to year.

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 (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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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.

Beginning in the first quarter of 2018, we assumed a tax rate of 21% on certain adjustments to reconcile net income available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders (unless otherwise indicated). In the prior year, we assumed a tax rate of 35%, the previous U.S. corporate federal income tax rate prior to the enactment of the TCJA, on certain adjustments to reconcile net income available to Genworth Financial, Inc.'s common stockholders and adjusted operating income 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.

We recorded a pre-tax expense of \$2 million for the three and nine months ended September 30, 2018 and \$1 million and \$2 million for the three and nine months ended September 30, 2017, respectively, 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.

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

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    |                       | Nine months ended     |                       |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                      | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| Revenues:                            |                       |                       |                       |                       |
| U.S. Mortgage Insurance segment      | \$ 214                | \$ 194                | \$ 622                | \$ 570                |
| Canada Mortgage Insurance segment    | 190                   | 220                   | 498                   | 593                   |
| Australia Mortgage Insurance segment | 105                   | 98                    | 348                   | 317                   |
| U.S. Life Insurance segment:         |                       |                       |                       |                       |
| Long-term care insurance             | 1,048                 | 1,033                 | 3,103                 | 3,063                 |
| Life insurance                       | 345                   | 389                   | 1,091                 | 1,217                 |
| Fixed annuities                      | 168                   | 190                   | 526                   | 605                   |
| U.S. Life Insurance segment          | 1,561                 | 1,612                 | 4,720                 | 4,885                 |
| Runoff segment                       | 79                    | 90                    | 227                   | 266                   |
| Corporate and Other activities       | (6)                   | 1                     | 2                     | (22)                  |
| Total revenues                       | \$ 2,143              | \$ 2,215              | \$ 6,417              | \$ 6,609              |

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

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:

| <b>(Amounts in millions)</b>  | <b>Three months ended</b> |             | <b>Nine months ended</b>  |             |
|---|---------------------------|-------------|---------------------------|-------------|
|   | <b>September 30, 2018</b> | <b>2017</b> | <b>September 30, 2018</b> | <b>2017</b> |
| Net income available to Genworth Financial, Inc.'s common stockholders  | \$ 146                    | \$ 107      | \$ 448                    | \$ 464      |
| Add: net income attributable to noncontrolling interests  | 64                        | 68          | 176                       | 198         |
| Net income  | 210                       | 175         | 624                       | 662         |
| Loss from discontinued operations, net of taxes   |                           | (9)         |                           | (9)         |
| Income from continuing operations   | 210                       | 184         | 624                       | 671         |
| Less: income from continuing operations attributable to noncontrolling interests                              | 64                        | 68          | 176                       | 198         |
| Income from continuing operations available to Genworth Financial, Inc.'s common stockholders                 | 146                       | 116         | 448                       | 473         |
| Adjustments to income from continuing operations available to Genworth Financial, Inc.'s common stockholders: |                           |             |                           |             |
| Net investment (gains) losses, net <sup>(1)</sup>   | (3)                       | (62)        | 26                        | (161)       |
| Expenses related to restructuring   | 2                         | 1           | 2                         | 2           |
| Taxes on adjustments  |                           | 21          | (6)                       | 56          |
| Adjusted operating income available to Genworth Financial, Inc.'s common stockholders                         | \$ 145                    | \$ 76       | \$ 470                    | \$ 370      |

- (1) For the three months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(3) million and zero, respectively, and adjusted for net investment gains (losses) attributable to noncontrolling interests of \$13 million and \$23 million, respectively. For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(7) million and zero,

respectively, and adjusted for net investment gains (losses) attributable to noncontrolling interests of \$1 million and \$59 million, respectively.



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

| <b>(Amounts in millions)</b>  | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders: |   |             |  |             |
| U.S. Mortgage Insurance segment   | \$ 118                                      | \$ 73       | \$ 366                                     | \$ 237      |
| Canada Mortgage Insurance segment   | 44  | 37          | 139  | 114         |
| Australia Mortgage Insurance segment  | 17  | 12          | 58   | 37          |
| U.S. Life Insurance segment:  |   |             |  |             |
| Long-term care insurance  | (24)  | (5)         | (34)                                       | 42          |
| Life insurance  | (2)   | (9)         | 1  | 6           |
| Fixed annuities   | 23  | 13          | 82   | 43          |
| U.S. Life Insurance segment   | (3)   | (1)         | 49   | 91          |
| Runoff segment  | 14  | 13          | 37   | 38          |
| Corporate and Other activities  | (45)  | (58)        | (179)                                      | (147)       |
| Adjusted operating income available to Genworth Financial, Inc.'s common stockholders         | \$ 145                                      | \$ 76       | \$ 470                                     | \$ 370      |

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

| <b>(Amounts in millions)</b>         | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------------------|-------------------------------|------------------------------|
| Assets:                              |                               |                              |
| U.S. Mortgage Insurance segment      | \$ 3,413                      | \$ 3,273                     |
| Canada Mortgage Insurance segment    | 5,327                         | 5,534                        |
| Australia Mortgage Insurance segment | 2,546                         | 2,973                        |
| U.S. Life Insurance segment          | 79,702                        | 81,295                       |
| Runoff segment                       | 10,501                        | 10,907                       |
| Corporate and Other activities       | 632                           | 1,315                        |
| Total assets                         | \$ 102,121                    | \$ 105,297                   |

## **(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 products, recommending unsuitable products to customers, our pricing structures and business practices in our

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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, 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.

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

In January 2017, two putative stockholder class action lawsuits, captioned *Rice v. Genworth Financial Incorporated, et al*, and *James v. Genworth Financial, Inc. et al*, were filed in the United States District Court for the Eastern District of Virginia, Richmond Division, against Genworth and its board of directors. A third putative stockholder class action lawsuit captioned *Rosenfeld Family Trust v. Genworth Financial, Inc. et al*, was filed in the United States District Court for the District of Delaware against Genworth and its board of directors. In February 2017, a fourth putative class action lawsuit captioned *Chopp v. Genworth Financial, Inc. et al*, was filed in the United States District Court for the District of Delaware against Genworth and its board of directors and a fifth putative class action lawsuit captioned *Ratliff v. Genworth Financial, Inc. et al*, was filed in the United States District Court for the Eastern District of Virginia, Richmond Division, against Genworth and its board of directors. The complaints in all five actions allege, among other things, that the preliminary proxy statement filed by Genworth with the SEC on December 21, 2016 contains false and/or materially misleading statements and/or omits material information. The complaints assert claims under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, and seek equitable relief, including declaratory and injunctive relief, and an award of attorneys' fees and expenses. On February 2, 2017, the plaintiff in *Rice* filed a motion for a preliminary injunction to enjoin the transaction described in the preliminary proxy. On February 10, 2017, defendants filed an opposition to the preliminary injunction motion in the *Rice* action. Also on February 10, 2017, the plaintiff in *Rosenfeld Family Trust* filed a motion for a preliminary injunction to enjoin the transaction described in the preliminary proxy. On February 14, 2017, defendants filed a motion to transfer the *Rosenfeld Family Trust* action to the Eastern District of Virginia. On February 15, 2017, defendants filed a motion to transfer the *Chopp* action to the Eastern District of Virginia. On February 21, 2017, the parties to the Eastern District of Virginia actions (*Rice*, *James* and *Ratliff*) reached an agreement in principle to resolve the pending preliminary injunction motion in the Eastern District of Virginia through additional disclosure prior to the March 7, 2017 stockholder vote on the proposed merger transaction. On February 22, 2017, the plaintiffs in the Eastern District of Virginia withdrew their preliminary injunction motion in consideration of the agreed disclosures to be filed in a Form 8-K by February 24, 2017. Also on February 22, 2017, the court in the District of Delaware suspended briefing on the motion for preliminary injunction in the *Rosenfeld Family Trust* action and entered an order transferring the *Rosenfeld Family Trust* and *Chopp* actions to the Eastern District of Virginia. On February 23, 2017, the court in the Eastern District of Virginia set the *Rosenfeld Family Trust* preliminary injunction motion for a hearing on March 1, 2017. On February 26, 2017, defendants filed an opposition to the preliminary injunction motion in the *Rosenfeld Family Trust* action. On February 27, 2017, the parties in the *Rosenfeld Family Trust* action reached an agreement in principle to resolve the pending preliminary injunction motion in the *Rosenfeld Family Trust* action through additional disclosure prior to the March 7, 2017 stockholder vote on the proposed merger transaction, and the plaintiff in the *Rosenfeld Family Trust* action withdrew its preliminary injunction motion in consideration of the agreed disclosures as filed in a Form 8-K on February 28, 2017. On March 6, 2017, the court in the Eastern District of Virginia entered an order setting a schedule for proceedings to appoint a lead plaintiff and lead counsel for the purported class action. On March 7, 2017, the court in the Eastern District of Virginia consolidated the *Rice*, *James*, *Ratliff*, *Rosenfeld Family Trust*, and *Chopp* actions. On July 5, 2017, the court in the Eastern District of Virginia heard oral argument on the motion to appoint a lead plaintiff and lead counsel. On August 25, 2017, the court in the Eastern District of Virginia entered an order appointing the plaintiffs Alexander Rice and Brian James as lead plaintiffs and their counsel as lead counsel. In November 2017, the parties reached an agreement in principle to settle the action based upon the previously provided additional disclosures, subject to confirmatory discovery and court approval. On April 4, 2018,

the parties entered into a stipulation of settlement. On April 24, 2018, the court in the Eastern District of Virginia entered an order preliminarily approving the settlement and following a July 3, 2018 hearing, granted final approval of the settlement and dismissed the action.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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 and Financial Assurance Company Limited, 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, Genworth 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. We intend to continue to vigorously defend this action.

In September 2018, Genworth Life and Annuity Insurance Company 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*. The Plaintiff is alleging unlawful and excessive cost of insurance (COI) charges were imposed on policyholders. The complaint asserts claims for breach of contract, alleging that Genworth improperly considered non-mortality factors when calculating COI rates and failed to decrease COI charges in light of improved expectations of future mortality. We intend to vigorously defend 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. Burkhardt, 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.* The 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 intend to vigorously defend this action.

At this time, other than as noted above, 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 also 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.

*(b) Commitments*

As of September 30, 2018, we were committed to fund \$423 million in limited partnership investments, \$113 million in U.S. commercial mortgage loan investments and \$28 million in private placement investments. As of September 30, 2018, we were committed to fund \$33 million of bank loan investments which had not yet been drawn.



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

| <b>(Amounts in millions)</b>   | <b>Net<br/>unrealized<br/>investment<br/>gains<br/>(losses)<br/>(1)</b> | <b>Derivatives<br/>qualifying<br/>as hedges<br/>(2)</b> | <b>Foreign<br/>currency<br/>translation<br/>and other<br/>adjustments</b> | <b>Total</b> |
|--|---|---|---|--------------|
| Balances as of July 1, 2018  | \$ 736  | \$ 1,863  | \$ (272)  | \$ 2,327     |
| OCI before reclassifications   | (141)   | (122)   | 20  | (243)        |
| Amounts reclassified from (to) OCI                                   | 7   | (24)  |   | (17)         |
| Current period OCI   | (134)   | (146)   | 20  | (260)        |
| Balances as of September 30, 2018 before<br>noncontrolling interests | 602   | 1,717   | (252)   | 2,067        |
| Less: change in OCI attributable to noncontrolling<br>interests      | (6)   |   | 6   |              |
| Balances as of September 30, 2018                                    | \$ 608  | \$ 1,717  | \$ (258)  | \$ 2,067     |

(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.

| <b>(Amounts in millions)</b> | <b>Net<br/>unrealized<br/>investment<br/>gains<br/>(losses)<br/>(1)</b> | <b>Derivatives<br/>qualifying<br/>as hedges<br/>(2)</b> | <b>Foreign<br/>currency<br/>translation<br/>and other<br/>adjustments</b> | <b>Total</b> |
|------------------------------|---|---|---|--------------|
|------------------------------|---|---|---|--------------|

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Balances as of July 1, 2017                                       | \$ 1,180 | \$ 2,064 | \$ (149) | \$ 3,095 |
| OCI before reclassifications                                      | (70)     | 10       | 81       | 21       |
| Amounts reclassified from (to) OCI                                | (19)     | (22)     |          | (41)     |
| Current period OCI  | (89)     | (12)     | 81       | (20)     |
| Balances as of September 30, 2017 before noncontrolling interests | 1,091    | 2,052    | (68)     | 3,075    |
| Less: change in OCI attributable to noncontrolling interests      | (17)     |          | 57       | 40       |
| Balances as of September 30, 2017                                 | \$ 1,108 | \$ 2,052 | \$ (125) | \$ 3,035 |

- (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.

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| <b>(Amounts in millions)</b>                                      | <b>Net<br/>unrealized<br/>investment<br/>gains<br/>(losses)<br/>(1)</b> | <b>Derivatives<br/>qualifying<br/>as hedges<br/>(2)</b> | <b>Foreign<br/>currency<br/>translation<br/>and other<br/>adjustments</b> | <b>Total</b> |
|---|---|---|---|--------------|
| 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                                      | (682)   | (287)   | (165)   | (1,134)      |
| Amounts reclassified from (to) OCI                                | 20  | (75)  |   | (55)         |
| Current period OCI  | (662)   | (362)   | (165)   | (1,189)      |
| Balances as of September 30, 2018 before noncontrolling interests | 587   | 1,717   | (335)   | 1,969        |
| Less: change in OCI attributable to noncontrolling interests      | (21)  |   | (77)  | (98)         |
| Balances as of September 30, 2018                                 | \$ 608  | \$ 1,717  | \$ (258)  | \$ 2,067     |

(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.

| <b>(Amounts in millions)</b>       | <b>Net<br/>unrealized<br/>investment<br/>gains<br/>(losses)<br/>(1)</b> | <b>Derivatives<br/>qualifying<br/>as hedges<br/>(2)</b> | <b>Foreign<br/>currency<br/>translation<br/>and other<br/>adjustments</b> | <b>Total</b> |
|------------------------------------|---|---|---|--------------|
| Balances as of January 1, 2017     | \$ 1,262  | \$ 2,085  | \$ (253)  | \$ 3,094     |
| OCI before reclassifications       | (95)  | 29  | 261   | 195          |
| Amounts reclassified from (to) OCI | (77)  | (62)  |   | (139)        |
| Current period OCI                 | (172)   | (33)  | 261   | 56           |

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Balances as of September 30, 2017 before noncontrolling interests | 1,090    | 2,052    | 8        | 3,150    |
| Less: change in OCI attributable to noncontrolling interests      | (18)     |          | 133      | 115      |
| Balances as of September 30, 2017                                 | \$ 1,108 | \$ 2,052 | \$ (125) | \$ 3,035 |

(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 \$(14) million and \$(5) million, respectively, net of taxes of \$5 million and \$1 million, respectively, related to a net unrecognized postretirement benefit obligation as of September 30, 2018 and 2017. The amount also includes taxes of \$(45) million and \$28 million, respectively, related to foreign currency translation adjustments as of September 30, 2018 and 2017. These balances include the impact of adopting new accounting guidance related to stranded tax effects.

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

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<br>accumulated<br>other comprehensive income (loss)<br>Three months ended |         |  |          | Affected line item in the<br>consolidated statements of<br>income |
|---|--|---------|--|----------|---|
|   | September<br>30,<br>2018   | 2017    | Nine months ended<br>September 30,<br>2018 | 2017     |   |
| Net unrealized investment (gains) losses:               |  |         |  |          |   |
| Unrealized (gains) losses on investments <sup>(1)</sup> | \$ 9   | \$ (29) | \$ 25                                      | \$ (118) | Net investment (gains) losses                                     |
| (Provision) benefit for income taxes                    | (2)  | 10      | (5)  | 41       | Provision for income taxes  |
| Total   | \$ 7   | \$ (19) | \$ 20                                      | \$ (77)  |   |
| Derivatives qualifying as hedges:                       |  |         |  |          |   |
| Interest rate swaps hedging assets                      | \$ (38)  | \$ (34) | \$ (112)                                   | \$ (95)  | Net investment income   |
| Interest rate swaps hedging assets                      |  |         | (5)  | (2)      | Net investment (gains) losses                                     |
| Benefit for income taxes                                | 14   | 12      | 42   | 35       | Provision for income taxes  |
| Total   | \$ (24)  | \$ (22) | \$ (75)                                    | \$ (62)  |   |

<sup>(1)</sup> 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 September 30, 2018 and December 31, 2017, the condensed consolidating income statement information and the condensed consolidating comprehensive income statement information for the three and nine months ended September 30, 2018 and 2017 and the condensed consolidating cash flow statement information for the nine months ended September 30, 2018 and 2017.

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.

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

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.

The following table presents the condensed consolidating balance sheet information as of September 30, 2018:

| <b>(Amounts in millions)</b>   | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| <b>Assets</b>  |                             |               |                                   |                     |                     |
| <b>Investments:</b>  |                             |               |                                   |                     |                     |
| Fixed maturity securities<br>available-for-sale, at fair value             | \$                          | \$            | \$ 59,604                         | \$ (200)            | \$ 59,404           |
| Equity securities, at fair value   |                             |               | 783                               |                     | 783                 |
| Commercial mortgage loans  |                             |               | 6,568                             |                     | 6,568               |
| Restricted commercial mortgage loans<br>related to securitization entities |                             |               | 87                                |                     | 87                  |
| Policy loans   |                             |               | 1,859                             |                     | 1,859               |
| Other invested assets  |                             | 77            | 1,287                             | (10)                | 1,354               |
| Investments in subsidiaries  | 12,925                      | 11,890        |                                   | (24,815)            |                     |
| Total investments  | 12,925                      | 11,967        | 70,188                            | (25,025)            | 70,055              |
| Cash, cash equivalents and restricted cash                                 |                             | 534           | 1,971                             |                     | 2,505               |
| Accrued investment income  |                             |               | 657                               |                     | 657                 |
| Deferred acquisition costs   |                             |               | 3,336                             |                     | 3,336               |
| Intangible assets and goodwill   |                             |               | 355                               |                     | 355                 |
| Reinsurance recoverable  |                             |               | 17,351                            |                     | 17,351              |
| Other assets   | 3                           | 64            | 407                               | (7)                 | 467                 |
| Intercompany notes receivable  |                             | 174           | 1                                 | (175)               |                     |
| Deferred tax assets  | 4                           | 1,001         | (355)                             |                     | 650                 |
| Separate account assets  |                             |               | 6,745                             |                     | 6,745               |
| Total assets   | \$ 12,932                   | \$ 13,740     | \$ 100,656                        | \$ (25,207)         | \$ 102,121          |
| <b>Liabilities and equity</b>  |                             |               |                                   |                     |                     |
| <b>Liabilities:</b>  |                             |               |                                   |                     |                     |
| Future policy benefits   | \$                          | \$            | \$ 38,018                         | \$                  | \$ 38,018           |

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|  |           |           |            |             |            |
|--|-----------|-----------|------------|-------------|------------|
| Policyholder account balances                        |           |           | 22,993     |             | 22,993     |
| Liability for policy and contract claims             |           |           | 9,844      |             | 9,844      |
| Unearned premiums                                    |           |           | 3,668      |             | 3,668      |
| Other liabilities                                    | 6         | 233       | 1,609      | (18)        | 1,830      |
| Intercompany notes payable                           | 128       | 201       | 46         | (375)       |            |
| Borrowings related to securitization entities        |           |           | 20         |             | 20         |
| Non-recourse funding obligations                     |           |           | 310        |             | 310        |
| Long-term borrowings                                 |           | 3,572     | 479        |             | 4,051      |
| Deferred tax liability                               |           |           | 21         |             | 21         |
| Separate account liabilities                         |           |           | 6,745      |             | 6,745      |
| Total liabilities                                    | 134       | 4,006     | 83,753     | (393)       | 87,500     |
| Equity:  |           |           |            |             |            |
| Common stock   | 1         |           | 3          | (3)         | 1          |
| Additional paid-in capital                           | 11,983    | 9,095     | 18,423     | (27,518)    | 11,983     |
| Accumulated other comprehensive income (loss)        | 2,067     | 2,153     | 2,072      | (4,225)     | 2,067      |
| Retained earnings                                    | 1,447     | (1,514)   | (5,718)    | 7,232       | 1,447      |
| Treasury stock, at cost                              | (2,700)   |           |            |             | (2,700)    |
| Total Genworth Financial, Inc. s stockholders equity | 12,798    | 9,734     | 14,780     | (24,514)    | 12,798     |
| Noncontrolling interests                             |           |           | 2,123      | (300)       | 1,823      |
| Total equity   | 12,798    | 9,734     | 16,903     | (24,814)    | 14,621     |
| Total liabilities and equity                         | \$ 12,932 | \$ 13,740 | \$ 100,656 | \$ (25,207) | \$ 102,121 |



**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, 2017:

| <b>(Amounts in millions)</b>   | <b>Parent<br/>Guarantor</b> | <b>Issuer</b>    | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------|------------------|-----------------------------------|---------------------|---------------------|
| <b>Assets</b>  |                             |                  |                                   |                     |                     |
| <b>Investments:</b>  |                             |                  |                                   |                     |                     |
| Fixed maturity securities<br>available-for-sale, at fair value             | \$                          | \$               | \$ 62,725                         | \$ (200)            | \$ 62,525           |
| Equity securities, at fair value   |                             |                  | 820                               |                     | 820                 |
| Commercial mortgage loans  |                             |                  | 6,341                             |                     | 6,341               |
| Restricted commercial mortgage loans<br>related to securitization entities |                             |                  | 107                               |                     | 107                 |
| Policy loans   |                             |                  | 1,786                             |                     | 1,786               |
| Other invested assets  |                             | 75               | 1,742                             | (4)                 | 1,813               |
| Investments in subsidiaries  | 13,561                      | 12,867           |                                   | (26,428)            |                     |
| <b>Total investments</b>   | <b>13,561</b>               | <b>12,942</b>    | <b>73,521</b>                     | <b>(26,632)</b>     | <b>73,392</b>       |
| Cash, cash equivalents and restricted cash                                 |                             | 795              | 2,080                             |                     | 2,875               |
| Accrued investment income  |                             |                  | 647                               | (3)                 | 644                 |
| Deferred acquisition costs   |                             |                  | 2,329                             |                     | 2,329               |
| Intangible assets and goodwill   |                             |                  | 301                               |                     | 301                 |
| Reinsurance recoverable  |                             |                  | 17,569                            |                     | 17,569              |
| Other assets   | 3                           | 54               | 397                               | (1)                 | 453                 |
| Intercompany notes receivable  |                             | 155              | 59                                | (214)               |                     |
| Deferred tax assets  | 27                          |                  | 477                               |                     | 504                 |
| Separate account assets  |                             |                  | 7,230                             |                     | 7,230               |
| <b>Total assets</b>  | <b>\$ 13,591</b>            | <b>\$ 13,946</b> | <b>\$ 104,610</b>                 | <b>\$ (26,850)</b>  | <b>\$ 105,297</b>   |
| <b>Liabilities and equity</b>  |                             |                  |                                   |                     |                     |
| <b>Liabilities:</b>  |                             |                  |                                   |                     |                     |
| Future policy benefits   | \$                          | \$               | \$ 38,472                         | \$                  | \$ 38,472           |
| Policyholder account balances  |                             |                  | 24,195                            |                     | 24,195              |
| Liability for policy and contract claims                                   |                             |                  | 9,594                             |                     | 9,594               |
| Unearned premiums  |                             |                  | 3,967                             |                     | 3,967               |
| Other liabilities  | 41                          | 119              | 1,759                             | (9)                 | 1,910               |
| Intercompany notes payable   | 132                         | 259              | 23                                | (414)               |                     |
|  |                             |                  | 40                                |                     | 40                  |

|   |           |           |            |             |            |
|---|-----------|-----------|------------|-------------|------------|
| Borrowings related to securitization entities         |           |           |            |             |            |
| Non-recourse funding obligations                      |           |           | 310        |             | 310        |
| Long-term borrowings                                  | 3,724     |           | 500        |             | 4,224      |
| Deferred tax liability                                | (807)     |           | 834        |             | 27         |
| Separate account liabilities                          |           |           | 7,230      |             | 7,230      |
| Total liabilities                                     | 173       | 3,295     | 86,924     | (423)       | 89,969     |
| Equity:   |           |           |            |             |            |
| Common stock  | 1         |           | 3          | (3)         | 1          |
| Additional paid-in capital                            | 11,977    | 9,096     | 18,420     | (27,516)    | 11,977     |
| Accumulated other comprehensive income (loss)         | 3,027     | 3,037     | 3,051      | (6,088)     | 3,027      |
| Retained earnings                                     | 1,113     | (1,482)   | (5,998)    | 7,480       | 1,113      |
| Treasury stock, at cost                               | (2,700)   |           |            |             | (2,700)    |
| Total Genworth Financial, Inc.'s stockholders' equity | 13,418    | 10,651    | 15,476     | (26,127)    | 13,418     |
| Noncontrolling interests                              |           |           | 2,210      | (300)       | 1,910      |
| Total equity  | 13,418    | 10,651    | 17,686     | (26,427)    | 15,328     |
| Total liabilities and equity                          | \$ 13,591 | \$ 13,946 | \$ 104,610 | \$ (26,850) | \$ 105,297 |

**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 September 30, 2018:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| <b>Revenues:</b>  |                             |               |                                   |                     |                     |
| Premiums  | \$                          | \$            | \$ 1,122                          | \$                  | \$ 1,122            |
| Net investment income   | (1)                         | 4             | 816                               | (4)                 | 815                 |
| Net investment gains (losses)   |                             | 4             | 9                                 |                     | 13                  |
| Policy fees and other income  |                             | (2)           | 195                               |                     | 193                 |
| Total revenues  | (1)                         | 6             | 2,142                             | (4)                 | 2,143               |
| <b>Benefits and expenses:</b>   |                             |               |                                   |                     |                     |
| Benefits and other changes in policy reserves   |                             |               | 1,321                             |                     | 1,321               |
| Interest credited   |                             |               | 151                               |                     | 151                 |
| Acquisition and operating expenses, net of deferrals  | 8                           | 1             | 234                               |                     | 243                 |
| Amortization of deferred acquisition costs and intangibles  |                             |               | 83                                |                     | 83                  |
| Interest expense  |                             | 64            | 12                                | (4)                 | 72                  |
| Total benefits and expenses   | 8                           | 65            | 1,801                             | (4)                 | 1,870               |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (9)                         | (59)          | 341                               |                     | 273                 |
| Provision (benefit) for income taxes  | (25)                        | (2)           | 90                                |                     | 63                  |
| Equity in income of subsidiaries  | 130                         | 52            |                                   | (182)               |                     |
| Income (loss) from continuing operations  | 146                         | (5)           | 251                               | (182)               | 210                 |
| Loss from discontinued operations, net of taxes   |                             |               |                                   |                     |                     |
| Net income (loss)   | 146                         | (5)           | 251                               | (182)               | 210                 |
| Less: net income attributable to noncontrolling interests   |                             |               | 64                                |                     | 64                  |

|   |        |        |        |          |        |
|---|--------|--------|--------|----------|--------|
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | \$ 146 | \$ (5) | \$ 187 | \$ (182) | \$ 146 |
|---|--------|--------|--------|----------|--------|

**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 September 30, 2017:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| <b>Revenues:</b>  |                             |               |                                   |                     |                     |
| Premiums  | \$                          | \$            | \$ 1,135                          | \$                  | \$ 1,135            |
| Net investment income   | (1)                         | 2             | 800                               | (4)                 | 797                 |
| Net investment gains (losses)   |                             | (4)           | 89                                |                     | 85                  |
| Policy fees and other income  |                             | 4             | 195                               | (1)                 | 198                 |
| <b>Total revenues</b>   | <b>(1)</b>                  | <b>2</b>      | <b>2,219</b>                      | <b>(5)</b>          | <b>2,215</b>        |
| <b>Benefits and expenses:</b>   |                             |               |                                   |                     |                     |
| Benefits and other changes in policy reserves   |                             |               | 1,344                             |                     | 1,344               |
| Interest credited   |                             |               | 164                               |                     | 164                 |
| Acquisition and operating expenses, net of deferrals  | 20                          | (2)           | 247                               |                     | 265                 |
| Amortization of deferred acquisition costs and intangibles  |                             |               | 83                                |                     | 83                  |
| Interest expense  |                             | 66            | 12                                | (5)                 | 73                  |
| <b>Total benefits and expenses</b>  | <b>20</b>                   | <b>64</b>     | <b>1,850</b>                      | <b>(5)</b>          | <b>1,929</b>        |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (21)                        | (62)          | 369                               |                     | 286                 |
| Provision (benefit) for income taxes  | (5)                         | (21)          | 128                               |                     | 102                 |
| Equity in income of subsidiaries  | 123                         | 71            |                                   | (194)               |                     |
| <b>Income from continuing operations</b>  | <b>107</b>                  | <b>30</b>     | <b>241</b>                        | <b>(194)</b>        | <b>184</b>          |
| Income (loss) from discontinued operations, net of taxes  |                             | 4             | (13)                              |                     | (9)                 |
| <b>Net income</b>   | <b>107</b>                  | <b>34</b>     | <b>228</b>                        | <b>(194)</b>        | <b>175</b>          |
| Less: net income attributable to noncontrolling interests   |                             |               | 68                                |                     | 68                  |

|   |        |       |        |          |        |
|---|--------|-------|--------|----------|--------|
| Net income available to Genworth Financial,<br>Inc. s common stockholders | \$ 107 | \$ 34 | \$ 160 | \$ (194) | \$ 107 |
|---|--------|-------|--------|----------|--------|

**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 nine months ended September 30, 2018:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| <b>Revenues:</b>  |                             |               |                                   |                     |                     |
| Premiums  | \$                          | \$            | \$ 3,398                          | \$                  | \$ 3,398            |
| Net investment income   | (2)                         | 11            | 2,449                             | (11)                | 2,447               |
| Net investment gains (losses)   |                             | 2             | (34)                              |                     | (32)                |
| Policy fees and other income  |                             | (1)           | 607                               | (2)                 | 604                 |
| Total revenues  | (2)                         | 12            | 6,420                             | (13)                | 6,417               |
| <b>Benefits and expenses:</b>   |                             |               |                                   |                     |                     |
| Benefits and other changes in policy reserves   |                             |               | 3,837                             |                     | 3,837               |
| Interest credited   |                             |               | 459                               |                     | 459                 |
| Acquisition and operating expenses, net of deferrals  | 22                          | 1             | 713                               |                     | 736                 |
| Amortization of deferred acquisition costs and intangibles  |                             |               | 299                               |                     | 299                 |
| Interest expense  | 1                           | 202           | 35                                | (13)                | 225                 |
| Total benefits and expenses   | 23                          | 203           | 5,343                             | (13)                | 5,556               |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (25)                        | (191)         | 1,077                             |                     | 861                 |
| Provision (benefit) for income taxes  | 13                          | (33)          | 257                               |                     | 237                 |
| Equity in income of subsidiaries  | 486                         | 248           |                                   | (734)               |                     |
| Income from continuing operations   | 448                         | 90            | 820                               | (734)               | 624                 |
| Loss from discontinued operations, net of taxes   |                             |               |                                   |                     |                     |
| Net income  | 448                         | 90            | 820                               | (734)               | 624                 |
| Less: net income attributable to noncontrolling interests   |                             |               | 176                               |                     | 176                 |

|   |        |       |        |          |        |
|---|--------|-------|--------|----------|--------|
| Net income available to Genworth Financial,<br>Inc. s common stockholders | \$ 448 | \$ 90 | \$ 644 | \$ (734) | \$ 448 |
|---|--------|-------|--------|----------|--------|



**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 nine months ended September 30, 2017:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| <b>Revenues:</b>  |                             |               |                                   |                     |                     |
| Premiums  | \$                          | \$            | \$ 3,382                          | \$                  | \$ 3,382            |
| Net investment income   | (3)                         | 5             | 2,397                             | (11)                | 2,388               |
| Net investment gains (losses)   |                             | (12)          | 232                               |                     | 220                 |
| Policy fees and other income  |                             | 3             | 617                               | (1)                 | 619                 |
| Total revenues  | (3)                         | (4)           | 6,628                             | (12)                | 6,609               |
| <b>Benefits and expenses:</b>   |                             |               |                                   |                     |                     |
| Benefits and other changes in policy reserves   |                             |               | 3,796                             |                     | 3,796               |
| Interest credited   |                             |               | 494                               |                     | 494                 |
| Acquisition and operating expenses, net of deferrals  | 48                          | (2)           | 729                               |                     | 775                 |
| Amortization of deferred acquisition costs and intangibles  |                             |               | 316                               |                     | 316                 |
| Interest expense  |                             | 187           | 34                                | (12)                | 209                 |
| Total benefits and expenses   | 48                          | 185           | 5,369                             | (12)                | 5,590               |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (51)                        | (189)         | 1,259                             |                     | 1,019               |
| Provision (benefit) for income taxes  | (9)                         | (65)          | 422                               |                     | 348                 |
| Equity in income of subsidiaries  | 506                         | 339           |                                   | (845)               |                     |
| Income from continuing operations   | 464                         | 215           | 837                               | (845)               | 671                 |
| Income (loss) from discontinued operations, net of taxes  |                             | 4             | (13)                              |                     | (9)                 |
| Net income  | 464                         | 219           | 824                               | (845)               | 662                 |
| Less: net income attributable to noncontrolling interests   |                             |               | 198                               |                     | 198                 |

|  |        |        |        |          |        |
|--|--------|--------|--------|----------|--------|
| Net income available to Genworth Financial, Inc. s common stockholders | \$ 464 | \$ 219 | \$ 626 | \$ (845) | \$ 464 |
|--|--------|--------|--------|----------|--------|

The following table presents the condensed consolidating comprehensive income statement information for the three months ended September 30, 2018:

| (Amounts in millions)  | Parent<br>Guarantor | Issuer   | All<br>Other<br>Subsidiaries | Eliminations | Consolidated |
|--|---------------------|----------|------------------------------|--------------|--------------|
| Net income (loss)  | \$ 146              | \$ (5)   | \$ 251                       | \$ (182)     | \$ 210       |
| Other comprehensive income (loss), net of taxes:                                     |                     |          |                              |              |              |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired      | (128)               | (120)    | (133)                        | 247          | (134)        |
| Net unrealized gains (losses) on other-than-temporarily impaired securities          |                     | (1)      |                              | 1            |              |
| Derivatives qualifying as hedges   | (146)               | (146)    | (152)                        | 298          | (146)        |
| Foreign currency translation and other adjustments                                   | 14                  | 6        | 19                           | (19)         | 20           |
| Total other comprehensive income (loss)  | (260)               | (261)    | (266)                        | 527          | (260)        |
| Total comprehensive loss   | (114)               | (266)    | (15)                         | 345          | (50)         |
| Less: comprehensive income attributable to noncontrolling interests                  |                     |          | 64                           |              | 64           |
| Total comprehensive loss available to Genworth Financial, Inc. s common stockholders | \$ (114)            | \$ (266) | \$ (79)                      | \$ 345       | \$ (114)     |

**Table of Contents****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 September 30, 2017:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All<br/>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|---------------------------------------|---------------------|---------------------|
| Net income  | \$ 107                      | \$ 34         | \$ 228                                | \$ (194)            | \$ 175              |
| Other comprehensive income (loss), net of taxes:  |                             |               |                                       |                     |                     |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired               | (72)                        | (71)          | (89)                                  | 143                 | (89)                |
| Derivatives qualifying as hedges  | (12)                        | (12)          | (12)                                  | 24                  | (12)                |
| Foreign currency translation and other adjustments  | 24                          | 12            | 80                                    | (35)                | 81                  |
| Total other comprehensive income (loss)   | (60)                        | (71)          | (21)                                  | 132                 | (20)                |
| Total comprehensive income (loss)   | 47                          | (37)          | 207                                   | (62)                | 155                 |
| Less: comprehensive income attributable to noncontrolling interests                           |                             |               | 108                                   |                     | 108                 |
| Total comprehensive income (loss) available to Genworth Financial, Inc.'s common stockholders | \$ 47                       | \$ (37)       | \$ 99                                 | \$ (62)             | \$ 47               |

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2018:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| Net income  | \$ 448                      | \$ 90         | \$ 820                            | \$ (734)            | \$ 624              |
| Other comprehensive income (loss), net of taxes:                                |                             |               |                                   |                     |                     |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | (639)                       | (582)         | (659)                             | 1,220               | (660)               |
|   | (2)                         | (2)           | (2)                               | 4                   | (2)                 |

Net unrealized gains (losses) on  
other-than-temporarily impaired securities

|                                  |       |       |       |     |       |
|----------------------------------|-------|-------|-------|-----|-------|
| Derivatives qualifying as hedges | (362) | (363) | (385) | 748 | (362) |
|----------------------------------|-------|-------|-------|-----|-------|

|  |      |      |       |     |       |
|--|------|------|-------|-----|-------|
| Foreign currency translation and other adjustments | (88) | (76) | (166) | 165 | (165) |
|--|------|------|-------|-----|-------|

|   |         |         |         |       |         |
|---|---------|---------|---------|-------|---------|
| Total other comprehensive income (loss) | (1,091) | (1,023) | (1,212) | 2,137 | (1,189) |
|---|---------|---------|---------|-------|---------|

|                          |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|
| Total comprehensive loss | (643) | (933) | (392) | 1,403 | (565) |
|--------------------------|-------|-------|-------|-------|-------|

|   |  |  |    |  |    |
|---|--|--|----|--|----|
| Less: comprehensive income attributable to noncontrolling interests |  |  | 78 |  | 78 |
|---|--|--|----|--|----|

Total comprehensive loss available to  
Genworth Financial, Inc.'s common  
stockholders

|    |       |    |       |    |       |    |       |    |       |
|----|-------|----|-------|----|-------|----|-------|----|-------|
| \$ | (643) | \$ | (933) | \$ | (470) | \$ | 1,403 | \$ | (643) |
|----|-------|----|-------|----|-------|----|-------|----|-------|

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

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2017:

| <b>(Amounts in millions)</b>   | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All<br/>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------|---------------|---------------------------------------|---------------------|---------------------|
| Net income   | \$ 464                      | \$ 219        | \$ 824                                | \$ (845)            | \$ 662              |
| Other comprehensive income (loss), net of taxes:                                       |                             |               |                                       |                     |                     |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired        | (155)                       | (172)         | (173)                                 | 327                 | (173)               |
| Net unrealized gains (losses) on other-than-temporarily impaired securities            | 1                           | 1             | 1                                     | (2)                 | 1                   |
| Derivatives qualifying as hedges   | (33)                        | (33)          | (32)                                  | 65                  | (33)                |
| Foreign currency translation and other adjustments                                     | 128                         | 109           | 260                                   | (236)               | 261                 |
| Total other comprehensive income (loss)  | (59)                        | (95)          | 56                                    | 154                 | 56                  |
| Total comprehensive income   | 405                         | 124           | 880                                   | (691)               | 718                 |
| Less: comprehensive income attributable to noncontrolling interests                    |                             |               | 313                                   |                     | 313                 |
| Total comprehensive income available to Genworth Financial, Inc.'s common stockholders | \$ 405                      | \$ 124        | \$ 567                                | \$ (691)            | \$ 405              |

**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 nine months ended September 30, 2018:

| <b>(Amounts in millions)</b>  | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| Cash flows from operating activities:   |                             |               |                                   |                     |                     |
| Net income  | \$ 448                      | \$ 90         | \$ 820                            | \$ (734)            | \$ 624              |
| Adjustments to reconcile net income to net cash from operating activities:      |                             |               |                                   |                     |                     |
| Equity in income from subsidiaries  | (486)                       | (248)         |                                   | 734                 |                     |
| Dividends from subsidiaries   | 50                          | 169           | (219)                             |                     |                     |
| Amortization of fixed maturity securities discounts and premiums                |                             | 4             | (96)                              |                     | (92)                |
| Net investment (gains) losses   |                             | (2)           | 34                                |                     | 32                  |
| Charges assessed to policyholders   |                             |               | (528)                             |                     | (528)               |
| Acquisition costs deferred  |                             |               | (63)                              |                     | (63)                |
| Amortization of deferred acquisition costs and intangibles                      |                             |               | 299                               |                     | 299                 |
| Deferred income taxes   | 23                          | (203)         | 295                               |                     | 115                 |
| Trading securities, limited partnerships and derivative instruments             |                             | 33            | (396)                             |                     | (363)               |
| Stock-based compensation expense  | 23                          |               | 2                                 |                     | 25                  |
| Change in certain assets and liabilities:                                       |                             |               |                                   |                     |                     |
| Accrued investment income and other assets                                      |                             | 149           | (283)                             | 3                   | (131)               |
| Insurance reserves  |                             |               | 1,039                             |                     | 1,039               |
| Current tax liabilities   | (33)                        | 166           | (181)                             |                     | (48)                |
| Other liabilities, policy and contract claims and other policy-related balances | (15)                        | (157)         | 245                               | (9)                 | 64                  |
| Net cash from operating activities  | 10                          | 1             | 968                               | (6)                 | 973                 |
| Cash flows from (used by) investing activities:                                 |                             |               |                                   |                     |                     |
| Proceeds from maturities and repayments of investments:                         |                             |               |                                   |                     |                     |
| Fixed maturity securities   |                             |               | 2,967                             |                     | 2,967               |
| Commercial mortgage loans   |                             |               | 543                               |                     | 543                 |

|   |     |        |          |      |          |
|---|-----|--------|----------|------|----------|
| Restricted commercial mortgage loans related to securitization entities       |     |        | 20       |      | 20       |
| Proceeds from sales of investments:   |     |        |          |      |          |
| Fixed maturity and equity securities  |     |        | 3,325    |      | 3,325    |
| Purchases and originations of investments:                                    |     |        |          |      |          |
| Fixed maturity and equity securities  |     |        | (6,416)  |      | (6,416)  |
| Commercial mortgage loans   |     |        | (769)    |      | (769)    |
| Other invested assets, net  |     |        | 358      | 6    | 364      |
| Policy loans, net   |     |        | 35       |      | 35       |
| Intercompany notes receivable   |     | (19)   | 58       | (39) |          |
| Capital contributions to subsidiaries   | (4) |        | 4        |      |          |
| Net cash from (used by) investing activities                                  | (4) | (19)   | 125      | (33) | 69       |
| Cash flows used by financing activities:                                      |     |        |          |      |          |
| Deposits to universal life and investment contracts                           |     |        | 805      |      | 805      |
| Withdrawals from universal life and investment contracts                      |     |        | (1,806)  |      | (1,806)  |
| Proceeds from the issuance of long-term debt                                  |     | 441    |          |      | 441      |
| Repayment and repurchase of long-term debt                                    |     | (598)  |          |      | (598)    |
| Repayment of borrowings related to securitization entities                    |     |        | (20)     |      | (20)     |
| Repurchase of subsidiary shares   |     |        | (89)     |      | (89)     |
| Dividends paid to noncontrolling interests                                    |     |        | (83)     |      | (83)     |
| Intercompany notes payable  | (4) | (58)   | 23       | 39   |          |
| Other, net  | (2) | (28)   | 30       |      |          |
| Net cash used by financing activities   | (6) | (243)  | (1,140)  | 39   | (1,350)  |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash |     |        | (62)     |      | (62)     |
| Net change in cash, cash equivalents and restricted cash                      |     | (261)  | (109)    |      | (370)    |
| 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                   | \$  | \$ 534 | \$ 1,971 | \$   | \$ 2,505 |

**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 nine months ended September 30, 2017:

| <b>(Amounts in millions)</b>   | <b>Parent<br/>Guarantor</b> | <b>Issuer</b> | <b>All Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------|---------------|-----------------------------------|---------------------|---------------------|
| Cash flows from (used by) operating activities:                                      |                             |               |                                   |                     |                     |
| Net income   | \$ 464                      | \$ 219        | \$ 824                            | \$ (845)            | \$ 662              |
| Less (gain) loss from discontinued operations, net of taxes                          |                             | (4)           | 13                                |                     | 9                   |
| Adjustments to reconcile net income to net cash from (used by) operating activities: |                             |               |                                   |                     |                     |
| Equity in income from subsidiaries   | (506)                       | (339)         |                                   | 845                 |                     |
| Dividends from subsidiaries  |                             | 119           | (119)                             |                     |                     |
| Amortization of fixed maturity securities discounts and premiums                     |                             | 4             | (111)                             |                     | (107)               |
| Net investment (gains) losses  |                             | 12            | (232)                             |                     | (220)               |
| Charges assessed to policyholders  |                             |               | (534)                             |                     | (534)               |
| Acquisition costs deferred   |                             |               | (67)                              |                     | (67)                |
| Amortization of deferred acquisition costs and intangibles                           |                             |               | 316                               |                     | 316                 |
| Deferred income taxes  | 6                           | (47)          | 275                               |                     | 234                 |
| Trading securities, limited partnerships and derivative instruments                  |                             | (46)          | 762                               |                     | 716                 |
| Stock-based compensation expense   | 23                          |               | 6                                 |                     | 29                  |
| Change in certain assets and liabilities:  |                             |               |                                   |                     |                     |
| Accrued investment income and other assets   | 2                           | (2)           | (25)                              | 4                   | (21)                |
| Insurance reserves   |                             |               | 1,202                             |                     | 1,202               |
| Current tax liabilities  | (6)                         | (75)          | 54                                |                     | (27)                |
| Other liabilities, policy and contract claims and other policy-related balances      | (29)                        | 34            | (259)                             | (6)                 | (260)               |
| Net cash from (used by) operating activities   | (46)                        | (125)         | 2,105                             | (2)                 | 1,932               |
| Cash flows used by investing activities:   |                             |               |                                   |                     |                     |
| Proceeds from maturities and repayments of investments:                              |                             |               |                                   |                     |                     |
| Fixed maturity securities  |                             |               | 3,396                             |                     | 3,396               |



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|   |      |        |          |      |          |
|---|------|--------|----------|------|----------|
| Commercial mortgage loans   |      |        | 454      |      | 454      |
| Restricted commercial mortgage loans related to securitization entities       |      |        | 18       |      | 18       |
| Proceeds from sales of investments:   |      |        |          |      |          |
| Fixed maturity and equity securities  |      |        | 3,269    |      | 3,269    |
| Purchases and originations of investments:                                    |      |        |          |      |          |
| Fixed maturity and equity securities  |      |        | (6,709)  |      | (6,709)  |
| Commercial mortgage loans   |      |        | (608)    |      | (608)    |
| Other invested assets, net  | 25   |        | (548)    | 2    | (521)    |
| Policy loans, net   |      |        | 28       |      | 28       |
| Intercompany notes receivable   | (77) |        | 34       | 43   |          |
| Capital contributions to subsidiaries   | (7)  |        | 7        |      |          |
| Payments for business purchased, net of cash acquired                         | (7)  |        | 2        |      | (5)      |
| Net cash used by investing activities   | (14) | (52)   | (657)    | 45   | (678)    |
| Cash flows from (used by) financing activities:                               |      |        |          |      |          |
| Deposits to universal life and investment contracts                           |      |        | 902      |      | 902      |
| Withdrawals from universal life and investment contracts                      |      |        | (2,003)  |      | (2,003)  |
| Repayment of borrowings related to securitization entities                    |      |        | (16)     |      | (16)     |
| Repurchase of subsidiary shares   |      |        | (31)     |      | (31)     |
| Dividends paid to noncontrolling interests                                    |      |        | (92)     |      | (92)     |
| Intercompany notes payable  | 61   | (35)   | 17       | (43) |          |
| Other, net  | (1)  | (32)   | 3        |      | (30)     |
| Net cash from (used by) financing activities                                  | 60   | (67)   | (1,220)  | (43) | (1,270)  |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash |      |        | 68       |      | 68       |
| Net change in cash, cash equivalents and restricted cash                      |      | (244)  | 296      |      | 52       |
| Cash, cash equivalents and restricted cash at beginning of period             |      | 998    | 1,786    |      | 2,784    |
| Cash, cash equivalents and restricted cash at end of period                   | \$   | \$ 754 | \$ 2,082 | \$   | \$ 2,836 |

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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, 2017, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately \$500 million to us in 2018 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 2018 at this level if they need to retain capital for growth and to meet capital requirements and desired thresholds. As of September 30, 2018, Genworth Financial's and Genworth Holdings' subsidiaries had restricted net assets of \$12.4 billion and \$11.6 billion, respectively.

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### **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 2017 Annual Report on Form 10-K. References to 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 the possibility that such regulatory approvals may further delay the transaction or will not be received prior to December 1, 2018 (and either or both of the parties may not be willing to further waive their end date termination rights beyond December 1, 2018) or that materially burdensome or adverse regulatory conditions may be imposed or undesirable measures may be required in connection with any such regulatory approvals (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, including approval of the China Oceanwide transaction with no unstacking, a potential alternative funding structure or in connection with the current geo-political environment; the parties' inability to obtain any necessary regulatory approvals 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; 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 our U.S. life insurance businesses, debt obligations, cost savings, ratings and capital); our ability to continue to sell long-term care insurance policies; our inability to attract buyers for any businesses or 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

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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 businesses in a timely manner and on anticipated terms, including through improved 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 to our assumptions, methodologies or otherwise in connection with periodic or other reviews, including the long-term care insurance claim reserves review we plan to complete in the fourth quarter of 2018 that will include a review of assumptions, which will consider, among other things, the pressures resulting from claims utilization developments of policyholders); risks related to the impact of our annual review of assumptions and methodologies related to our long-term care insurance claim reserves and margin reviews in the fourth quarter of 2018, including risks that additional information obtained in finalizing our claims and margin reviews in the fourth quarter of 2018 or other changes to assumptions or methodologies materially affect the impact on 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, including reviews we expect to complete and carry out in the fourth quarter of 2018); 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 business in Australia (which we expect to carry out in the fourth quarter of 2018); 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 (particularly given the historically low interest rate environment) 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;

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*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 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, our confidential information;

*insurance and product-related risks* including: our inability to increase sufficiently, and in a timely manner, premiums on in-force long-term care insurance policies and/or reduce in-force benefits, and charge higher premiums on new 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), including to offset any impact on our margins; failure to sufficiently increase new sales for our long-term care insurance products; availability, affordability and adequacy of reinsurance to protect us against losses; our 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: occurrence of natural or man-made disasters or a pandemic; 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.



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### **Overview**

#### ***Our business***

We are dedicated to helping meet the homeownership and long-term care needs of our customers. We have the following five operating business 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.

***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 ( FABNs ).

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, Inc. ( Genworth Holdings ) level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations.

### **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.

#### ***China Oceanwide Transaction***

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, and Asia Pacific Global Capital USA Corporation ("Merger Sub"), a Delaware corporation and an indirect, wholly-owned subsidiary of Asia Pacific Insurance USA Holdings LLC ("Asia Pacific Insurance") which is a Delaware limited liability company and owned by China Oceanwide. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of Asia Pacific Insurance (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 June 2018, the Committee on Foreign Investment in the United States ("CFIUS")

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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.

On August 14, 2018, Genworth Financial, Parent and Merger Sub entered into a sixth waiver and agreement (Sixth Waiver and Agreement) pursuant to which Genworth Financial and Parent each agreed to waive until December 1, 2018 its right to terminate the Merger Agreement and abandon the Merger in accordance with the terms of the Merger Agreement. The Sixth Waiver and Agreement extended the previous waiver and agreement extension deadline of August 15, 2018, and allows additional time for regulatory reviews of the transaction, although we expect the regulatory review process will extend beyond this date. In addition, under the Sixth Waiver and Agreement, Genworth Financial and China Oceanwide waived, among other things: (i) the parties' obligation to effect the purchase of Genworth Life and Annuity Insurance Company (GLAIC) from Genworth Life Insurance Company (GLIC) by a Genworth intermediate holding company, which we refer to as the GLAIC unstacking and China Oceanwide's obligation to contribute to us \$525 million for such purpose; and (ii) China Oceanwide's obligation to contribute \$600 million for the purpose of retiring our senior unsecured notes due in May 2018 (the May 2018 senior notes). These waivers are discussed further below. 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 we are unable to satisfy the closing conditions by December 1, 2018 and are unable to reach an agreement as to a further extension of the deadline, then either party may terminate the Merger Agreement.

As part of the transaction, China Oceanwide originally committed in the Merger Agreement to contribute \$525 million of cash for the purpose of facilitating the GLAIC unstacking. This contribution combined with \$175 million of cash previously committed by Genworth Holdings was intended to enable a Genworth intermediate holding company to purchase GLAIC from GLIC, a Delaware-domiciled insurance entity, for a purchase price of \$700 million and complete the GLAIC unstacking. After extensive discussions with the Delaware Department of Insurance (DDOI) on different methodologies for establishing the fair market value for GLAIC, the parties and the DDOI were unable to agree on the fair market value of GLAIC. Therefore, the parties decided to forgo the GLAIC unstacking, and accordingly under the Sixth Waiver and Agreement, Genworth Financial and China Oceanwide waived the Merger Agreement provisions related to the GLAIC unstacking including China Oceanwide's obligation to make the originally contemplated \$525 million contribution.

Genworth Financial and China Oceanwide continue to work with the DDOI and other regulators to obtain approval of the Merger without the GLAIC unstacking. On October 26, 2018, the DDOI announced that a public hearing will be held on November 28, 2018 on the proposed acquisition of GLIC by entities affiliated with China Oceanwide in connection with the Merger Agreement. Genworth Financial and China Oceanwide also announced the parties agreed, following the Merger, 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, as discussed above. The \$175 million will 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. In addition, at or before the closing of the Merger, GLAIC will purchase from GLIC an intercompany note for an 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 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.



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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. The approval by the NDRC concludes their review process and enables China Oceanwide to move forward with the remaining regulatory approval process in China.

The closing of the Merger remains subject to the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions and other closing conditions. Genworth Financial and China Oceanwide also continue to be actively engaged with the other relevant regulators regarding the pending applications.

China Oceanwide originally committed in the Merger Agreement to contribute \$600 million of cash to Genworth, subject to the consummation of the Merger, to address the May 2018 senior notes on or before their maturity. Due to the delays in the completion of the transaction, Genworth completed the \$450 million senior secured term loan facility ( Term Loan ), as discussed below. Instead of the \$600 million contribution from China Oceanwide, the proceeds of the Term Loan, together with \$175 million of cash on hand, were used to retire the May 2018 senior notes. Therefore, under the Sixth Waiver and Agreement, Genworth Financial and China Oceanwide waived the \$600 million contribution for the May 2018 senior notes and accordingly China Oceanwide did not, and is no longer obligated to, make the originally contemplated \$600 million contribution.

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, with the final amounts of the plan to be contributed by March 31, 2020. 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.

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. Our day-to-day operations are not expected to change as a result of this transaction.

### ***Restructuring of U.S. Life Insurance Businesses***

One of our strategic objectives was to separate, through the GLAIC unstacking, and then isolate, through a series of internal transactions, our long-term care insurance business from our other U.S. life insurance businesses. Our goal under the plan had been to align substantially all of our non-New York in-force life insurance and annuity business under GLAIC, our Virginia domiciled life insurance company, and substantially all of our non-New York long-term care insurance business under GLIC, our Delaware domiciled life insurance company.

On August 14, 2018, Genworth Financial and China Oceanwide entered into the Sixth Waiver and Agreement, pursuant to which the parties waived the provisions in the Merger Agreement related to the GLAIC unstacking. Because of the recent decision by Genworth Financial and China Oceanwide not to pursue the GLAIC unstacking at this time in connection with the Merger, it is now contemplated that we will not pursue the GLAIC unstacking as a part of our strategic objective to restructure our U.S. life insurance businesses for the foreseeable future. However, we will continue to work to stabilize our long-term care insurance business primarily through our multi-year long-term care insurance rate action plan. Increased premiums and/or associated benefit reductions on our legacy long-term care insurance policies are critical to support the policy claims of the business.

Given that Genworth Financial and China Oceanwide will no longer pursue the GLAIC unstacking, and in line with Genworth Financial's strategic objective to restructure its U.S. life insurance businesses through isolating the long-term care insurance business, Genworth Holdings completed a bond consent solicitation on

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October 4, 2018 to amend its senior notes indenture to clarify that GLAIC and the subsidiaries of GLIC, GLAIC and Genworth Life Insurance Company of New York ( GLICNY ) are excluded from the class of subsidiaries for which a bankruptcy, insolvency or other similar proceeding would result in an event of default under the indenture with respect to certain outstanding senior notes.

China Oceanwide has no current intention or future obligation to contribute additional capital to support our legacy long-term care insurance business. The parties have agreed, however, that following the closing of the Merger, Genworth Holdings would contribute \$175 million in aggregate to GLIC over time.

### ***Term Loan***

Due to the delay in the closing of the China Oceanwide transaction, we entered into the Term Loan with an aggregate principal amount of \$450 million that was closed in March 2018. Proceeds of \$441 million from the Term Loan were used together with \$175 million of cash on hand to retire the principal and accrued interest of the May 2018 senior notes. An affiliate of China Oceanwide was the lead investor in the transaction and funded \$60 million towards the Term Loan. The Term Loan includes a limited recourse guarantee secured by the publicly listed shares of Genworth MI Canada Inc. ( Genworth Canada ), held by Genworth Financial International Holdings, LLC ( GFIH ), an indirect wholly-owned subsidiary of Genworth Financial.

### ***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 the third quarter of 2016 and fourth quarters of 2016 and 2017, absent any alternative commitment of external capital, we believe there would be: considerable doubt as to the feasibility and timing of achieving an unstacking of any portion of GLAIC in the foreseeable future; 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; limitations on our ability to continue to write new long-term care insurance policies; 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, including potential sales of our mortgage insurance businesses in Canada and/or Australia. We are also evaluating 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. Asset sales or 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***

As noted above, stabilizing our U.S. life insurance businesses continues to be one of our long-term goals. We will continue to execute against this objective primarily through our multi-year long-term care insurance rate action plan. Increased premiums and/or associated benefit reductions on our legacy long-term care insurance policies are critical to support the policy claims of the business. 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.



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**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. Beginning in the first quarter of 2018, after-tax amounts assumed a tax rate of 21% compared to 35% in the prior year.

***Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017***

We had net income available to Genworth Financial, Inc.'s common stockholders of \$146 million and \$107 million for the three months ended September 30, 2018 and 2017, respectively. Adjusted operating income available to Genworth Financial, Inc.'s common stockholders was \$145 million and \$76 million for the three months ended September 30, 2018 and 2017, respectively.

Our U.S. Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$118 million and \$73 million for the three months ended September 30, 2018 and 2017, respectively. The increase was predominantly related to higher premiums principally related to an increase in insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year. The increase was also attributable to lower taxes and a decrease in new delinquencies in the current year.

Our Canada Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$44 million and \$37 million for the three months ended September 30, 2018 and 2017, respectively. Lower taxes favorably impacted earnings, partially offset by lower premiums predominantly from updated premium recognition factors from the review of our premium earnings pattern in the current year.

Our Australia Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$17 million and \$12 million for the three months ended September 30, 2018 and 2017, respectively. We recorded higher premiums and earnings in the current year principally from updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017. Higher earnings were also attributable to lower operating expenses in the current year.

Our U.S. Life Insurance segment had an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$3 million and \$1 million for the three months ended September 30, 2018 and 2017, respectively. The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders for our long-term care insurance business increased \$19 million mainly attributable to lower terminations and higher severity and frequency of new claims, partially offset by higher premiums and reduced benefits in the current year from in-force rate actions approved and implemented. The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders for our life insurance business decreased \$7 million primarily from a \$15 million net unfavorable model refinement in the prior year that did not recur, higher investment income and lower interest credited, partially offset by higher ceded

reinsurance in the current year. The adjusted operating income in our fixed annuities business increased \$10 million predominantly attributable to higher reserves of \$6 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur.

The increase was also attributable to favorable mortality, lower taxes and interest credited, partially offset by a decrease in investment income in the current year.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

We had net income available to Genworth Financial, Inc.'s common stockholders of \$448 million and \$464 million for the nine months ended September 30, 2018 and 2017, respectively. Adjusted operating income available to Genworth Financial, Inc.'s common stockholders was \$470 million and \$370 million for the nine months ended September 30, 2018 and 2017, respectively.

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Our U.S. Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$366 million and \$237 million for the nine months ended September 30, 2018 and 2017, respectively. The increase was mainly from lower losses, driven mostly by a \$22 million favorable reserve adjustment in the current year principally from lower expected claim rates. The increase was also attributable to higher mortgage insurance in-force and lower taxes in the current year. The prior year included a \$10 million favorable reserve adjustment.

Our Canada Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$139 million and \$114 million for the nine months ended September 30, 2018 and 2017, respectively. The increase was principally driven by lower income taxes and higher premiums, partially offset by higher losses in the current year.

Our Australia Mortgage Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$58 million and \$37 million for the nine months ended September 30, 2018 and 2017, respectively. The increase was primarily driven by updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums on our existing insurance in-force in the current year and from higher premiums largely related to higher policy cancellations. The increase was also attributable to lower income taxes in the current year.

Our U.S. Life Insurance segment had adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$49 million and \$91 million for the nine months ended September 30, 2018 and 2017, respectively. Our long-term care insurance business had an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$34 million in the current year compared to adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$42 million in the prior year. The decrease to a loss in the current year from income in the prior year was predominantly attributable to higher severity and frequency of new claims and higher utilization of available benefits in the current year. These decreases were partially offset by higher premiums in the current year from in-force rate actions approved and implemented and an increase in investment income in the current year. For more information on in-force rate actions see **Significant Developments U.S. Life Insurance**. Adjusted operating income in our life insurance business decreased \$5 million primarily from higher ceded reinsurance and unfavorable mortality in our universal and term universal life insurance products. These decreases were partially offset by favorable mortality in our term life insurance products and prior year transactions that did not recur: a \$20 million net unfavorable term conversion mortality assumption correction and a net \$15 million unfavorable model refinement. Adjusted operating income in our fixed annuities business increased \$39 million mainly attributable to higher reserves of \$20 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur, favorable mortality, and lower interest credited and taxes, partially offset by lower investment income 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 is compliant with the PMIERs capital requirements, with a prudent buffer. We estimate our U.S. mortgage insurance business had available assets of approximately 130% of the required assets under PMIERs as of September 30, 2018 compared to approximately 121% as of December 31, 2017. As of September 30, 2018 and December 31, 2017, the PMIERs sufficiency ratios were in excess of \$750 million and \$550 million, respectively, of available assets above the PMIERs requirements. The increase in the current year was driven, in part, by positive operating cash flows and a reduction in delinquent loans.

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*PMIERS 2.0.* The GSEs published the final revisions to PMIERS, referred to as PMIERS 2.0, on September 27, 2018 with an effective date of March 31, 2019. If PMIERS 2.0 had been effective as of September 30, 2018, we estimate that the sufficiency ratio would have been approximately 120%, or more than \$550 million of available assets above the PMIERS 2.0 requirements. This difference is primarily due to the elimination of any credit for future premiums in PMIERS 2.0 that had previously been allowed on insurance policies written in 2008 or earlier.

*Dividends paid.* Our U.S. mortgage insurance business paid \$50 million of dividends in the second quarter of 2018. We expect this will be the only dividend paid by our U.S. mortgage insurance business in 2018.

### ***U.S. Life Insurance***

*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/or reduced benefits 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/or reduced benefits 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 rate action filings, we received 85 filing approvals from 25 states during the nine months ended September 30, 2018, representing a weighted-average increase of 53% on approximately \$526 million in annualized in-force premiums. We also submitted 53 new filings in 17 states during the nine months ended September 30, 2018 on approximately \$335 million in annualized in-force premiums.

*Annual claim and assumption reviews and loss recognition and cash flow testing.* We plan to complete our annual review of claim reserve assumptions and methodologies for our long-term care insurance business in the fourth quarter of 2018. See U.S. Life Insurance segment trends and conditions for additional details. In the fourth quarter of 2018, we will also perform assumption reviews for our universal and term universal life insurance products as well as for our other U.S. life insurance products, including our long-term care insurance products, and complete our loss recognition testing. In addition, we will perform cash flow testing separately for each of our U.S. life insurance companies on a statutory accounting basis in the fourth quarter of 2018.

### ***Liquidity and Capital Resources***

*Secured Term Loan.* On March 7, 2018, Genworth Holdings entered into a \$450 million Term Loan, which matures in March 2023 and was issued at a 0.5% discount. Principal payments under the agreement are due quarterly, commencing on June 30, 2018, and are payable in equal amounts of 0.25% per quarter of the original principal amount with the remaining balance due at maturity. At our option, the Term Loan will bear interest at either an adjusted London Interbank Offered Rate ( LIBOR ) no lower than 1.0% plus a margin of 4.5% per annum or an alternate base rate plus a margin of 3.5% per annum. At September 30, 2018, the interest rate on the Term Loan was 6.6%. The Term Loan is unconditionally guaranteed by Genworth Financial, and GFIH has provided a limited recourse guarantee to the lenders of Genworth Holdings outstanding Term Loan, which is secured by GFIH's ownership interest in Genworth Canada's outstanding common shares. GFIH is our indirect wholly-owned subsidiary and owns approximately 40.5% of the

outstanding common stock of Genworth Canada. The Term Loan is subject to other terms and conditions, including but not limited to: voluntary prepayments subject to prepayment penalties, mandatory prepayments in the event of certain asset sales or the incurrence of further indebtedness by Genworth Financial and various financial covenants.

*Redemption of Genworth Holdings May 2018 senior notes.* On May 22, 2018, Genworth Holdings redeemed \$597 million of its 6.52% senior notes that were issued in May 2008 and matured in May

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2018. A cash payment of \$616 million comprising net proceeds of \$441 million from the Term Loan and \$175 million of existing cash on hand was used to fully redeem the principal and accrued interest balance of the May 2018 senior notes.

*Genworth Holdings' bond consent solicitation.* On October 4, 2018, Genworth Holdings completed a bond consent solicitation whereby it amended its senior notes indenture to clarify that GLAIC and the subsidiaries of GLIC, GLAIC and GLICNY are excluded from the class of subsidiaries for which a bankruptcy, insolvency or other similar proceeding would result in an event of default under the indenture. In October 2018, we paid approximately \$11 million of total fees, which consisted of bond consent fees, broker, advisor and investment banking fees. The bond consent fees will be deferred and the remaining fees will be expensed in the fourth quarter of 2018.

*Amended Genworth Canada Credit Facility.* On October 26, 2018, Genworth Canada, our majority-owned subsidiary, amended its existing credit agreement whereby the syndicated senior unsecured revolving credit facility was increased from CAD\$200 million to CAD\$300 million. The maturity date was extended to September 29, 2023. Any borrowings under Genworth Canada's credit facility will bear interest at a rate per annum equal to, at the option of Genworth Canada, either a fixed rate or a variable rate pursuant to the terms of the amended credit agreement. The credit facility includes customary representations, warranties, covenants, terms and conditions.

## ***Regulation and Taxes***

Our effective tax rate decreased for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the enactment of the Tax Cuts and Jobs Act ( TCJA ), which included a change in the U.S. corporate federal income tax rate from 35% to 21%. The decrease for the three months ended September 30, 2018 was also attributable to provision to return adjustments recorded in the current year primarily related to the mandatory repatriation rules of the TCJA. These decreases were partially offset by the effect of foreign operations, which had an overall increase on the effective tax rate as our primary foreign subsidiaries are now in jurisdictions with higher statutory tax rates than the United States. These decreases were also partially offset by tax expense related to gains on forward starting swaps settled prior to the enactment of the TCJA, which are tax effected at 35% as they are amortized into net investment income. See note 8 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for additional information.

## **Financial Strength Ratings**

On September 26, 2018, Standard & Poor's Financial Services LLC ( S&P ) downgraded the financial strength rating of our principal life insurance subsidiaries, GLIC, GLICNY and GLAIC, from B+ (Weak) to B- (Weak). S&P also revised the CreditWatch status of Genworth Financial, Genworth Holdings and Genworth Mortgage Insurance Corporation ( GMICO ) from negative implications to developing. S&P's rating actions were based mostly on their negative view of our creditworthiness, whereas the revised CreditWatch status was principally from the continued uncertainty around the closing of the China Oceanwide transaction and the associated regulatory review, and the timing of the deal close.

On July 25, 2018, A.M. Best Company, Inc. ( A.M. Best ) affirmed the financial strength ratings of our principal life insurance subsidiaries and the credit rating of Genworth Financial and Genworth Holdings. Likewise, A.M. Best removed the under review with developing implications status on all existing Genworth ratings and assigned a stable outlook. These actions were taken by A.M. Best primarily from the outcome of the CFIUS review and our ability to address our May 2018 senior notes. For a further discussion of the financial strength ratings of our insurance subsidiaries, see Item 1 Financial Strength Ratings in our 2017 Annual Report on Form 10-K.



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**Table of Contents****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 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 has improved and most countries in which we conduct business have seen improved levels of gross domestic product ( GDP ) growth. Many economic forecasts show the rate of GDP growth will slow in the fourth quarter of 2018 and into 2019 but maintain a healthy range of sustainable growth. Furthermore, oil and commodity prices have stabilized and economic forecasts show this stability continuing into 2019, but it is expected to be pressured beyond 2019 as demand from China moderates and price competition intensifies. Likewise, historic low interest rates have started to rise given actions taken by the U.S. Federal Reserve and other central banks. Although the U.S. Federal Reserve increased its benchmark lending rate 25 basis points in September 2018, long-term interest rates remained at low levels. The U.S. Federal Reserve also maintained its forecast for one additional rate increase in the fourth quarter of 2018, which would result in four rate increases in 2018. In addition, the U.S. Federal Reserve projects three additional 25 basis point increases in 2019 and one in 2020. Given this robust forecast, we expect interest rates will continue to rise in the fourth quarter of 2018 and into 2019, but we remain uncertain at the pace in which this increase will occur and its ultimate impact on our businesses. The decision for additional rate increases was anticipated and indicates increased confidence in the United States economy as unemployment has reached multi-decade lows and economic growth has been strong in 2018. Likewise, inflation remains relatively stable but long-term forecasts remain uncertain. The U.S. Treasury yield curve continued to flatten in the third quarter of 2018 with short-term interest rates rising supported by the U.S. Federal Reserve rate increases, while long-term interest rates increased at a lesser rate due to inflationary concerns from ongoing speculation around tariffs and escalating tensions associated with trade wars. Credit markets experienced spread tightening in the third quarter of 2018 driven by a constructive economic backdrop, strong profit margins, higher corporate earnings, lower supply of bonds compared to the first half of 2018 and higher foreign demand. However, spreads on below investment grade emerging market bonds widened as countries exposed to a strengthening U.S. dollar and higher oil prices underperformed the broader credit markets. 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 2017 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 adjust 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 under the TCJA, 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. For example, in Canada, actions in certain regions have been taken to stabilize rising home prices to mitigate the potential for inflation on real estate values. This has had a negative impact on sales and has slowed

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home price appreciation in those regions. However, in aggregate, these actions had a positive effect in the short term on the economies of these countries and their markets; however, there can be no assurance as to the future impact these types of actions may have on the economic and financial markets, including levels of interest rates and volatility. A U.S. or global recession or regional or global financial crisis could 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.

**Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

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

| (Amounts in millions)                                      | Three months ended |              | Increase<br>(decrease) and<br>percentage<br>change |             |
|--|--------------------|--------------|--|-------------|
|  | 2018               | 2017         | 2018 vs. 2017                                      |             |
| <b>Revenues:</b>   |                    |              |  |             |
| Premiums   | \$ 1,122           | \$ 1,135     | \$ (13)  | (1)%        |
| Net investment income                                      | 815                | 797          | 18   | 2%          |
| Net investment gains (losses)                              | 13                 | 85           | (72)   | (85)%       |
| Policy fees and other income                               | 193                | 198          | (5)  | (3)%        |
| <b>Total revenues</b>                                      | <b>2,143</b>       | <b>2,215</b> | <b>(72)</b>  | <b>(3)%</b> |
| <b>Benefits and expenses:</b>                              |                    |              |  |             |
| Benefits and other changes in policy reserves              | 1,321              | 1,344        | (23)   | (2)%        |
| Interest credited  | 151                | 164          | (13)   | (8)%        |
| Acquisition and operating expenses, net of deferrals       | 243                | 265          | (22)   | (8)%        |
| Amortization of deferred acquisition costs and intangibles | 83                 | 83           |  | %           |
| Interest expense   | 72                 | 73           | (1)  | (1)%        |
| <b>Total benefits and expenses</b>                         | <b>1,870</b>       | <b>1,929</b> | <b>(59)</b>  | <b>(3)%</b> |
| Income from continuing operations before income taxes      | 273                | 286          | (13)   | (5)%        |
| Provision for income taxes                                 | 63                 | 102          | (39)   | (38)%       |
| Income from continuing operations                          | 210                | 184          | 26   | 14%         |
| Loss from discontinued operations, net of taxes            |                    | (9)          | 9  | 100%        |
| Net income   | 210                | 175          | 35   | 20%         |
| Less: net income attributable to noncontrolling interests  | 64                 | 68           | (4)  | (6)%        |

|  |        |        |       |     |
|--|--------|--------|-------|-----|
| Net income available to Genworth Financial, Inc. s common stockholders | \$ 146 | \$ 107 | \$ 39 | 36% |
|--|--------|--------|-------|-----|

*Premiums.* Premiums consist primarily of premiums earned on insurance products for mortgage, long-term care, life and accident and health insurance, single premium immediate annuities and structured settlements with life contingencies.

Our U.S. Life Insurance segment decreased \$31 million. Our long-term care insurance business increased \$7 million largely from \$19 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations in the current year. Our life insurance business decreased \$38 million mainly attributable to higher ceded premiums in the current year from new reinsurance treaties effective in December 2017 and the continued runoff of our term life insurance products in the current year.

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Our Canada Mortgage Insurance segment decreased \$4 million primarily from changes in foreign exchange rates and from updated premium recognition factors from the review of our premium earnings pattern in the current year. The three months ended September 30, 2018 included a decrease of \$3 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment increased \$15 million mainly attributable to higher insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year.

Our Australia Mortgage Insurance segment increased \$9 million predominantly from updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums in the current year on our existing insurance in-force. The three months ended September 30, 2018 included a decrease of \$4 million attributable to changes in foreign exchange rates.

*Net investment income.* Net investment income represents the income earned on our investments. For discussion of the change in net investment income, see the comparison for this line item under Investments and Derivative Instruments.

*Net investment gains (losses).* Net investment gains (losses) consist primarily of realized gains and losses from the sale or impairment of our investments, unrealized and realized gains and losses from our equity and trading securities and derivative instruments. For discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

*Policy fees and other income.* Policy fees and other income consists primarily of fees assessed against policyholder and contractholder account values, surrender charges, cost of insurance assessed on universal and term universal life insurance policies, advisory and administration service fees assessed on investment contractholder account values, broker/dealer commission revenues and other fees. The decrease was principally related to our Runoff segment predominantly from lower fee income driven mostly by a decline in the average account values in our variable annuity products in the current year.

*Benefits and other changes in policy reserves.* Benefits and other changes in policy reserves consist primarily of claim costs incurred related to mortgage insurance products and benefits paid and reserve activity related to current claims and future policy benefits on insurance and investment products for long-term care, life and accident and health insurance, structured settlements and single premium immediate annuities with life contingencies.

Our U.S. Mortgage Insurance segment decreased \$15 million primarily driven by lower new delinquencies in the current year.

Our U.S. Life Insurance segment decreased \$7 million. Our long-term care insurance business increased \$48 million mainly from higher reserves as a result of the aging of the in-force block, lower claim and policy terminations and higher severity and frequency of new claims in the current year. These increases were partially offset by higher reduced benefits of \$12 million in the current year related to in-force rate actions approved and implemented. Our life insurance business decreased \$41 million primarily attributable to higher ceded benefits in the current year from new reinsurance treaties effective in December 2017. The decrease was also a result of

improved mortality in our universal life insurance products, partially offset by unfavorable mortality and less favorable reserve releases in our term life insurance products in the current year. The prior year included a \$30 million unfavorable model refinement that did not recur. Our fixed annuities business decreased \$14 million largely attributable to higher reserves of \$9 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur. The decrease was also attributable to lower interest credited and favorable mortality in the current year.

Our Australia Mortgage Insurance segment decreased \$2 million largely attributable to improved aging, partially offset by higher new delinquencies, net of cures, in the current year.

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Our Canada Mortgage Insurance segment was flat as lower new delinquencies, net of cures, and a lower average reserve per delinquency were offset by lower favorable development in our loss reserves in the current year.

*Interest credited.* Interest credited represents interest credited on behalf of policyholder and contractholder general account balances. The decrease was primarily related to our U.S. Life Insurance segment. Our life insurance business decreased \$4 million primarily driven by a decline in average account values in the current year. Our fixed annuities business decreased \$11 million predominantly from a decline in average account values and lower crediting rates in the current year.

*Acquisition and operating expenses, net of deferrals.* Acquisition and operating expenses, net of deferrals, represent costs and expenses related to the acquisition and ongoing maintenance of insurance and investment contracts, including commissions, policy issuance expenses and other underwriting and general operating costs. These costs and expenses are net of amounts that are capitalized and deferred, which are costs and expenses that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts, such as first-year commissions in excess of ultimate renewal commissions and other policy issuance expenses.

Corporate and Other activities decreased \$7 million mainly driven by lower legal and consulting fees and lower net expenses after allocations in the current year.

Our U.S. Life Insurance segment decreased \$5 million. Our life insurance and fixed annuities businesses each decreased \$3 million principally related to lower operating expenses as a result of the continued runoff of our in-force blocks in the current year.

Our Australia Mortgage Insurance segment decreased \$3 million primarily from lower compensation and benefit expenses and from a decrease in professional fees in the current year.

Our Canada Mortgage Insurance segment decreased \$3 million mainly driven by lower stock-based compensation expense in the current year.

*Provision for income taxes.* The effective tax rate decreased to 23.0% for the three months ended September 30, 2018 from 35.5% for the three months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to changes resulting from the implementation of the TCJA, which included a U.S. federal tax rate change from 35% to 21%. The decrease was also attributable to provision to return adjustments recorded in the current year primarily related to the mandatory repatriation rules of the TCJA. These decreases were partially offset by the effect of foreign operations, which had an overall increase on the effective tax rate as our primary foreign subsidiaries are now in jurisdictions with higher statutory tax rates than the United States. These decreases were also partially offset by a tax expense related to gains on forward starting swaps settled prior to the enactment of the TCJA, which are tax effected at 35% as they are amortized into net investment income.

*Net income attributable to noncontrolling interests.* Net income attributable to noncontrolling interests represents the portion of equity in a subsidiary attributable to third parties.





**Table of Contents*****Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

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

| <b>(Amounts in millions)</b>  | <b>Nine months ended<br/>September 30,</b> |               | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |              |
|---|--|---------------|--|--------------|
|   | <b>2018</b>                                | <b>2017</b>   |  |              |
| <b>Revenues:</b>  |  |               |  |              |
| Premiums  | \$ 3,398                                   | \$ 3,382      | \$ 16  | %            |
| Net investment income   | 2,447                                      | 2,388         | 59   | 2%           |
| Net investment gains (losses)   | (32)                                       | 220           | (252)  | (115)%       |
| Policy fees and other income  | 604  | 619           | (15)   | (2)%         |
| <b>Total revenues</b>   | <b>6,417</b>                               | <b>6,609</b>  | <b>(192)</b>   | <b>(3)%</b>  |
| <b>Benefits and expenses:</b>   |  |               |  |              |
| Benefits and other changes in policy reserves                                     | 3,837                                      | 3,796         | 41   | 1%           |
| Interest credited   | 459  | 494           | (35)   | (7)%         |
| Acquisition and operating expenses, net of deferrals                              | 736  | 775           | (39)   | (5)%         |
| Amortization of deferred acquisition costs and intangibles                        | 299  | 316           | (17)   | (5)%         |
| Interest expense  | 225  | 209           | 16   | 8%           |
| <b>Total benefits and expenses</b>  | <b>5,556</b>                               | <b>5,590</b>  | <b>(34)</b>  | <b>(1)%</b>  |
| <b>Income from continuing operations before income taxes</b>                      | <b>861</b>                                 | <b>1,019</b>  | <b>(158)</b>   | <b>(16)%</b> |
| <b>Provision for income taxes</b>   | <b>237</b>                                 | <b>348</b>    | <b>(111)</b>   | <b>(32)%</b> |
| <b>Income from continuing operations</b>  | <b>624</b>                                 | <b>671</b>    | <b>(47)</b>  | <b>(7)%</b>  |
| <b>Loss from discontinued operations, net of taxes</b>                            |  | <b>(9)</b>    | <b>9</b>   | <b>100%</b>  |
| <b>Net income</b>   | <b>624</b>                                 | <b>662</b>    | <b>(38)</b>  | <b>(6)%</b>  |
| <b>Less: net income attributable to noncontrolling interests</b>                  | <b>176</b>                                 | <b>198</b>    | <b>(22)</b>  | <b>(11)%</b> |
| <b>Net income available to Genworth Financial, Inc. s<br/>common stockholders</b> | <b>\$ 448</b>                              | <b>\$ 464</b> | <b>\$ (16)</b>   | <b>(3)%</b>  |

***Premiums***

Our Australia Mortgage Insurance segment increased \$54 million largely due to updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums in the current year on our existing insurance in-force and from higher policy cancellations resulting from an initiative implemented in the second quarter of 2018 to more promptly

identify loans that have been discharged or refinanced using newly available data. The increase was also attributable to a new structured insurance transaction completed in the first quarter of 2018.

Our U.S. Mortgage Insurance segment increased \$39 million mainly attributable to higher insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year.

Our Canada Mortgage Insurance segment increased \$14 million primarily from changes in foreign exchange rates in the current year and from the seasoning of our larger, more recent in-force blocks of business. The nine months ended September 30, 2018 included an increase of \$10 million attributable to changes in foreign exchange rates.

Our U.S. Life Insurance segment decreased \$91 million. Our long-term care insurance business increased \$13 million largely from \$54 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations in the current year. Our life insurance business decreased \$104 million mainly attributable to higher ceded premiums in the current year from new reinsurance treaties effective in December 2017 and the continued runoff of our term life insurance products in the current year.

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*Net investment income.* For discussion of the change in net investment income, see the comparison for this line item under Investments and Derivative Instruments.

*Net investment gains (losses).* For discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

*Policy fees and other income*

Our U.S. Life Insurance segment decreased \$7 million mostly attributable to our life insurance business primarily driven by a decline in our term universal and universal life insurance in-force blocks in the current year, partially offset by an \$8 million unfavorable model refinement in the prior year that did not recur.

Our Runoff segment decreased \$7 million principally from lower fee income driven mostly by a decrease in the average account values in our variable annuity products in the current year.

*Benefits and other changes in policy reserves*

Our U.S. Life Insurance segment increased \$67 million. Our long-term care insurance business increased \$194 million principally from higher reserves as a result of the aging of the in-force block, higher severity and frequency of new claims, higher utilization of available benefits and a less favorable impact of \$8 million from reduced benefits in the current year related to in-force rate actions approved and implemented. Our life insurance business decreased \$78 million primarily attributable to higher ceded benefits in the current year from new reinsurance treaties effective in December 2017. The decrease was also the result of favorable mortality in our term life insurance products, partially offset by unfavorable mortality in our universal and term universal life insurance products and less favorable reserve releases in our term life insurance products in the current year. The prior year included a \$30 million unfavorable model refinement that did not recur. Our fixed annuities business decreased \$49 million largely attributable to higher reserves of \$31 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur and from favorable mortality in the current year.

Our Canada Mortgage Insurance segment increased \$13 million largely from lower favorable development in our loss reserves and higher new delinquencies, net of cures, partially offset by a lower average reserve per delinquency in the current year.

Our Australia Mortgage Insurance segment increased \$2 million largely attributable to less favorable non-reinsurance recoveries on paid claims in the current year and lower cure activity, partially offset by lower new delinquencies and improved aging of existing delinquencies in the current year.

Our U.S. Mortgage Insurance segment decreased \$45 million primarily from a \$28 million favorable reserve adjustment in the current year mostly driven by lower expected claim rates. The decrease was also attributable to lower new delinquencies and favorable net cures and aging of existing delinquencies in the

current year. The prior year included a \$15 million favorable reserve adjustment.

*Interest credited*

Our U.S. Life Insurance segment decreased \$41 million. Our life insurance business decreased \$8 million primarily driven by a decline in average account values in the current year. Our fixed annuities business decreased \$33 million predominantly from a decline in average account values and lower crediting rates in the current year.

Our Runoff segment increased \$6 million largely related to higher account values in our corporate-owned life insurance products in the current year.

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### *Acquisition and operating expenses, net of deferrals*

Our U.S. Life Insurance segment decreased \$19 million. Our long-term care insurance business decreased \$14 million mostly driven by \$21 million of guaranty fund assessments in connection with the Penn Treaty Network America Insurance Company and American Network Insurance Company ( Penn Treaty ) liquidation in the prior year that did not recur, partially offset by higher premium taxes in the current year. Our fixed annuities business decreased \$4 million largely attributable to lower operating expenses as a result of the continued runoff of our in-force block in the current year.

Corporate and Other activities decreased \$13 million mainly driven by lower consulting fees and lower net expenses after allocations in the current year.

Our Runoff segment decreased \$4 million mainly from lower commissions in our variable annuity products in the current year.

### *Amortization of deferred acquisition costs and intangibles*

Our U.S. Life Insurance segment decreased \$19 million driven mostly by our life insurance business largely related to a \$41 million unfavorable term conversion mortality assumption correction in the prior year that did not recur and lower lapses in the current year. These decreases were partially offset by prior year transactions that did not recur: a net \$15 million favorable model refinement and an \$11 million favorable refinement related to reinsurance rates.

Our Australia Mortgage Insurance segment increased \$2 million largely from higher contract fees amortization in the current year.

*Interest expense.* Interest expense represents interest related to our borrowings that are incurred at Genworth Holdings or subsidiaries and our non-recourse funding obligations and interest expense related to the Tax Matters Agreement and certain reinsurance arrangements being accounted for as deposits. Corporate and Other activities increased \$14 million largely driven by a favorable correction of \$11 million related to our Tax Matters Agreement liability in the prior year that did not recur, higher interest expense related to the Term Loan that Genworth Holdings closed in March 2018 and from our junior subordinated notes which had a higher floating rate of interest in the current year. These increases were partially offset by lower interest expense associated with the redemption of \$597 million of Genworth Holdings senior notes in May 2018.

*Provision for income taxes.* The effective tax rate decreased to 27.5% for the nine months ended September 30, 2018 from 34.1% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the enactment of the TCJA, which included a change in the U.S. corporate federal income tax rate from 35% to 21%. This decrease was partially offset by the effect of foreign operations, which had an overall increase on the effective tax rate as our primary foreign subsidiaries are now in jurisdictions with higher statutory tax rates than the United States. The decrease was also partially offset by tax expense related to gains on forward starting swaps settled prior to the enactment of the TCJA, which are tax effected at 35% as they are amortized into net investment income.

***Use of non-Generally Accepted Accounting Principles ( GAAP ) measures***

***Reconciliation of net income to adjusted operating income available to Genworth Financial, Inc. s common stockholders***

We use non-GAAP financial measures entitled adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders and adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders per share. Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders per share is derived from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders. Our chief operating decision maker evaluates segment performance and

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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 (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, including adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders per share on a basic and diluted basis, 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 and adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders per share on a basic and diluted basis are not substitutes for net income (loss) available to Genworth Financial, Inc.'s common stockholders or net income (loss) available to Genworth Financial, Inc.'s common stockholders per share on a basic and diluted basis 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.

On December 22, 2017, the TCJA was signed into law. The TCJA reduced the U.S. corporate federal income tax rate to 21% effective for taxable years beginning on January 1, 2018. Therefore, beginning in the first quarter of 2018, we assumed a tax rate of 21% on certain adjustments to reconcile net income available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders and in the explanation of specific variances of operating performance (unless otherwise indicated). In the prior year, we assumed a tax rate of 35%, the previous U.S. corporate federal income tax rate prior to the enactment of the TCJA, on certain adjustments to reconcile net income available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders and in the explanation of specific variances of operating performance. 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.



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The following table includes a reconciliation of net income available to Genworth Financial, Inc.'s common stockholders to adjusted operating income available to Genworth Financial, Inc.'s common stockholders for the periods indicated:

| (Amounts in millions)   | Three months ended    |                       | Nine months ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2018 | September 30,<br>2017 | September 30,<br>2018 | September 30,<br>2017 |
| Net income available to Genworth Financial, Inc.'s common stockholders  | \$ 146                | \$ 107                | \$ 448                | \$ 464                |
| Add: net income attributable to noncontrolling interests  | 64                    | 68                    | 176                   | 198                   |
| Net income  | 210                   | 175                   | 624                   | 662                   |
| Loss from discontinued operations, net of taxes   |                       | (9)                   |                       | (9)                   |
| Income from continuing operations   | 210                   | 184                   | 624                   | 671                   |
| Less: income from continuing operations attributable to noncontrolling interests                              | 64                    | 68                    | 176                   | 198                   |
| Income from continuing operations available to Genworth Financial, Inc.'s common stockholders                 | 146                   | 116                   | 448                   | 473                   |
| Adjustments to income from continuing operations available to Genworth Financial, Inc.'s common stockholders: |                       |                       |                       |                       |
| Net investment (gains) losses, net <sup>(1)</sup>   | (3)                   | (62)                  | 26                    | (161)                 |
| Expenses related to restructuring   | 2                     | 1                     | 2                     | 2                     |
| Taxes on adjustments  |                       | 21                    | (6)                   | 56                    |
| Adjusted operating income available to Genworth Financial, Inc.'s common stockholders                         | \$ 145                | \$ 76                 | \$ 470                | \$ 370                |

- (1) For the three months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(3) million and zero, respectively, and adjusted for net investment gains (losses) attributable to noncontrolling interests of \$13 million and \$23 million, respectively. For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(7) million and zero, respectively, and adjusted for net investment gains (losses) attributable to noncontrolling interests of \$1 million and \$59 million, respectively.

We recorded a pre-tax expense of \$2 million for the three and nine months ended September 30, 2018 and \$1 million and \$2 million for the three and nine months ended September 30, 2017, respectively, 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.

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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:

|   | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
| <b>(Amounts in millions, except per share amounts)</b>  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| <b>Income from continuing operations available to Genworth Financial, Inc. s common stockholders per share:</b> |   |             |  |             |
| Basic   | \$ 0.29                                     | \$ 0.23     | \$ 0.89                                    | \$ 0.95     |
| Diluted   | \$ 0.29                                     | \$ 0.23     | \$ 0.89                                    | \$ 0.94     |
| <b>Net income available to Genworth Financial, Inc. s common stockholders per share:</b>                        |   |             |  |             |
| Basic   | \$ 0.29                                     | \$ 0.21     | \$ 0.89                                    | \$ 0.93     |
| Diluted   | \$ 0.29                                     | \$ 0.21     | \$ 0.89                                    | \$ 0.93     |
| <b>Adjusted operating income available to Genworth Financial, Inc. s common stockholders per share:</b>         |   |             |  |             |
| Basic   | \$ 0.29                                     | \$ 0.15     | \$ 0.94                                    | \$ 0.74     |
| Diluted   | \$ 0.29                                     | \$ 0.15     | \$ 0.93                                    | \$ 0.74     |
| <b>Weighted-average common shares outstanding:</b>  |   |             |  |             |
| Basic   | 500.7                                       | 499.1       | 500.3                                      | 498.9       |
| Diluted   | 503.3                                       | 501.6       | 502.9                                      | 501.2       |

Diluted weighted-average common shares outstanding reflect the effects of potentially dilutive securities including stock options, restricted stock units and other equity-based compensation.

**Results of Operations and Selected Financial and Operating Performance Measures by Segment**

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. See note 9 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for a 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.

On December 22, 2017, the TCJA was signed into law. The TCJA reduced the U.S. corporate federal income tax rate to 21% effective for taxable years beginning on January 1, 2018 and migrated the worldwide tax system to a territorial international tax system. Therefore, beginning on January 1, 2018 we taxed our international businesses at their local

statutory tax rates and our domestic businesses at the new enacted tax rate of 21%. We allocate our consolidated provision for income taxes to our operating segments. Our allocation methodology applies a specific 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 income. 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.

The annually-determined tax rates and adjustments to each segment's provision for income taxes are estimates which are subject to review and could change from year to year.

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Management's discussion and analysis by segment contains selected operating performance measures including sales and insurance in-force or risk in-force which are commonly used in the insurance industry as measures of operating performance.

Management regularly monitors and reports sales metrics as a measure of volume of new and renewal business generated in a period. Sales refer to: new insurance written for mortgage insurance and annualized first-year premiums for long-term care insurance products. Sales do not include renewal premiums on policies or contracts written during prior periods. We consider new insurance written and annualized first-year premiums to be a measure of our operating performance because they represent a measure of new sales of insurance policies or contracts during a specified period, rather than a measure of our revenues or profitability during that period.

Management regularly monitors and reports insurance in-force and risk in-force. Insurance in-force for our mortgage insurance businesses is a measure of the aggregate original loan balance for outstanding insurance policies as of the respective reporting date. Risk in-force for our U.S. mortgage insurance business is based on the coverage percentage applied to the estimated current outstanding loan balance. For risk in-force in our mortgage insurance businesses in Canada and Australia, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor of 35% that represents the highest expected average per-claim payment for any one underwriting year over the life of our mortgage insurance businesses in Canada and Australia. In Australia, we have certain risk share arrangements where we provide pro-rata coverage of certain loans rather than 100% coverage. As a result, for loans with these risk share arrangements, the applicable pro-rata coverage amount provided is used when applying the factor. We consider insurance in-force and risk in-force to be measures of our operating performance because they represent measures of the size of our business at a specific date which will generate revenues and profits in a future period, rather than measures of our revenues or profitability during that period.

Management also regularly monitors and reports a loss ratio for our businesses. For our mortgage insurance businesses, the loss ratio is the ratio of benefits and other changes in policy reserves to net earned premiums. For our long-term care insurance business, the loss ratio is the ratio of benefits and other changes in reserves less tabular interest on reserves less loss adjustment expenses to net earned premiums. We consider the loss ratio to be a measure of underwriting performance in these businesses and helps to enhance the understanding of the operating performance of our businesses.

These operating performance measures enable us to compare our operating performance across periods without regard to revenues or profitability related to policies or contracts sold in prior periods or from investments or other sources.

**U.S. Mortgage Insurance segment**

***Trends and conditions***

Results of our U.S. mortgage insurance business are affected primarily by the following factors: competitor actions; unemployment or underemployment levels; other economic and housing market trends, including interest rates, home prices, the number of first-time homebuyers, and mortgage origination volume mix and practices; the levels and aging of mortgage delinquencies; the effect of seasonal variations; the inventory of unsold homes; loan modification and other servicing efforts; and litigation, among other items. Our results are subject to the performance of the U.S. housing market and the extent of the adverse impact of seasonality that we experience historically in the second half of the year.

The level of private mortgage insurance market penetration and eventual market size is affected in part by actions taken by the GSEs and the U.S. government, including the Federal Housing Administration (FHA), the Federal Housing Finance Agency, and the U.S. Congress, which impact housing or housing finance policy. In the

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past, these actions have included announced changes, or potential changes, to underwriting standards, FHA pricing, GSE guaranty fees and loan limits as well as low-down-payment programs available through the FHA or GSEs. In the first quarter of 2018, Freddie Mac introduced to certain lenders a pilot program, Integrated Mortgage Insurance, commonly referred to as IMAGIN, as an alternative to private mortgage insurance. IMAGIN transfers default risk on high loan-to-value mortgages to a panel of reinsurers approved by Freddie Mac. In July 2018, Fannie Mae introduced a similar pilot program, Enterprise Paid Mortgage Insurance ( EPMI ). As currently designed and implemented, we believe these pilot programs are targeted at less than 5% of the total 2018 aggregate private mortgage insurance available market and compete with lender paid private mortgage insurance, which represented approximately 7% of our new insurance written in the third quarter of 2018. For more information about the potential future impact, see Item 1A Risk Factors Fannie Mae and Freddie Mac exert significant influence over the U.S. mortgage insurance market and changes to the role or structure of Freddie Mac or Fannie Mae could have a material adverse impact on our U.S. mortgage insurance business and The amount of mortgage insurance we write could decline significantly if alternatives to private mortgage insurance are used or lower coverage levels of mortgage insurance are selected in our 2017 Annual Report on Form 10-K.

Estimated mortgage origination volume decreased during the third quarter of 2018 compared to the third quarter of 2017 primarily due to lower refinance originations, partially offset by an increase in purchase originations. The decline in refinance mortgage originations was driven by increases in interest rates. The growth in purchase mortgage originations during 2018 slowed in the third quarter as interest rates and home prices continued to increase and housing inventory remained low. The estimated private mortgage insurance available market increased compared to the third quarter of 2017 due to continued strong demand from first-time homebuyers and more competitive pricing. Our flow persistency was 84% during the third quarter of 2018 compared to 83% in the third quarter of 2017, due in part to the rise in interest rates. Our U.S. mortgage insurance estimated market share for the third quarter of 2018 decreased compared to the second quarter of 2018 and the third quarter of 2017 primarily due to the loss of a large customer, partially offset by a larger private mortgage insurance available market. Our market share continues to be pressured by the negative ratings differential relative to our competitors, concerns expressed about Genworth's financial condition and the proposed transaction with China Oceanwide. For more information on the potential impacts due to competition, see Item 1A Risk Factors Competitors could negatively affect our ability to maintain or increase our market share and profitability and Our reliance on key customer or distribution relationships could cause us to lose significant sales if one or more of those relationships terminate or are reduced in our 2017 Annual Report on Form 10-K.

The U.S. private mortgage insurance industry is highly competitive. There are currently six active mortgage insurers, including Genworth. In the second quarter of 2018, Genworth introduced new, lower priced rate cards, several of which included two new risk attributes that more closely align loan price and expected performance. Overall, the new rates reduced the weighted average price of the revised rate cards by approximately 10% while maintaining estimated aggregate mid-teen pricing returns on new insurance written. In addition, more new insurance written in the market is being priced using an opaque pricing engine, commonly referred to in the industry as black box pricing, that frequently provides a lower price to lenders compared to prevailing rate cards. Given evolving market dynamics, we expect price competition to remain highly competitive.

New insurance written decreased 9% during the third quarter of 2018 compared to the third quarter of 2017 primarily due to a decrease in our estimated market share primarily due to the loss of a large customer, partially offset by a larger private mortgage insurance available market. The percentage of single premium new insurance written decreased in the third quarter of 2018 compared to the third quarter of 2017, reflecting our selective participation in this market. Future volumes of these products will vary depending in part on our evaluation of their risk return profile. We continue to manage the quality of new business through our underwriting guidelines, which we modify from time to time when circumstances warrant. In the third quarter of 2018 we removed the guideline limit on loans with

debt-to-income ratios greater than 45% with Fair Isaac Company ( FICO ) scores less than 700 that we had implemented in the first quarter of 2018. We removed this guideline limit primarily due

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to the implementation of new, higher pricing for high debt-to-income loans in June 2018 and an improvement in risk profile as these loans are approved through GSE automated underwriting engines.

Our loss ratio was 11% for the three months ended September 30, 2018 compared to 20% for the three months ended September 30, 2017. The loss ratio decreased primarily from lower losses related to the decline in new delinquencies and from higher net earned premiums attributable to higher insurance in-force in the current year. The new delinquencies reported in the fourth quarter of 2017 in the areas impacted by hurricanes Harvey and Irma continued to perform consistent with our prior expected claim frequency for these delinquencies. As a result, there were no incremental incurred losses from these delinquencies in 2018. Additionally, we do not expect any material impacts from the recent hurricanes affecting the Southeast region of the United States, Florence and Michael, which occurred in September and October of 2018, respectively. We will continue to monitor these affected areas and support the measures enacted by the GSEs restricting foreclosure actions and providing other forms of mortgage relief for those dealing with damage in the affected areas. Foreclosure starts decreased in the third quarter of 2018 as compared to the third quarter of 2017. We have also seen a reduction in loans that have been subject to a modification or workout. We expect our level of loan modifications to continue to decline going forward in line with the expected reduction in delinquent loans and the continuing aging of delinquencies.

In the second quarter of 2018, our U.S. mortgage insurance business paid a \$50 million dividend to a Genworth holding company. We expect this will be the only dividend paid by our U.S. mortgage insurance business in 2018.

As of September 30, 2018, GMICO's risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance ( NCDOI ), GMICO's domestic insurance regulator, was approximately 12.6:1, compared with a risk-to-capital ratio of approximately 12.8:1 as of June 30, 2018 and approximately 12.9:1 as of December 31, 2017. This risk-to-capital ratio remains below the NCDOI's maximum risk-to-capital ratio of 25:1. GMICO's ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, the amount of policy lapses, changes in the value of affiliated assets and the amount of additional capital that is generated within the business or capital support (if any) that we provide.

Effective December 31, 2015, each GSE adopted revised PMIERS, which set forth operational and financial requirements that mortgage insurers must meet in order to remain eligible. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERS. As of September 30, 2018, we estimate our U.S. mortgage insurance business had available assets of approximately 130% of the required assets under PMIERS compared to approximately 129% as of June 30, 2018 and 121% as of December 31, 2017. As of September 30, 2018, June 30, 2018 and December 31, 2017, the PMIERS sufficiency ratios were in excess of \$750 million, \$700 million and \$550 million, respectively, of available assets above the PMIERS requirements. The increase in the third quarter of 2018 was driven, in part, by positive operating cash flows and the reduction in delinquent loans. The new delinquencies reported in the fourth quarter of 2017 in the areas impacted by hurricanes Harvey and Irma continue to cure in line with our original loss expectations. This cure performance reduced the negative impact to the PMIERS sufficiency ratio from two points to one point in the third quarter of 2018. Reinsurance transactions provided an aggregate of approximately \$575 million of PMIERS capital credit as of September 30, 2018. The GSEs published the final revisions to PMIERS, referred to as PMIERS 2.0, on September 27, 2018 with an effective date of March 31, 2019. If PMIERS 2.0 had been effective as of September 30, 2018, we estimate that the sufficiency ratio would have been approximately 120%, or more than \$550 million of available assets above the PMIERS 2.0 requirements. This difference is primarily due to the elimination of any credit for future premiums in PMIERS 2.0 that had previously been allowed on insurance policies written in 2008 or earlier.



As of September 30, 2018, loans modified through the Home Affordable Refinance Program ( HARP ) accounted for approximately \$10.9 billion of insurance in-force, with approximately \$10.3 billion of those loans

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from our 2005 through 2008 book years. The volume of new HARP modifications continues to decrease as the number of loans that would benefit from a HARP modification decreases. Loans modified through HARP have extended amortization periods and reduced interest rates, which reduce borrower's monthly payments. Over time, we expect these modified loans to result in extended premium streams and a lower incidence of default. On August 17, 2017, the U.S. government extended HARP through December 31, 2018. For financial reporting purposes, we report HARP modified loans as a modification of the coverage on existing insurance in-force rather than new insurance written.

**Segment results of operations****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The following table sets forth the results of operations relating to our U.S. Mortgage Insurance segment for the periods indicated:

| (Amounts in millions)   | Three months ended<br>September 30, |        | Increase<br>(decrease) and<br>percentage<br>change |       |
|---|-------------------------------------|--------|--|-------|
|   | 2018                                | 2017   | 2018 vs. 2017                                      |       |
| <b>Revenues:</b>  |                                     |        |  |       |
| Premiums  | \$ 190                              | \$ 175 | \$ 15  | 9%    |
| Net investment income   | 23                                  | 18     | 5  | 28%   |
| Net investment gains (losses)   |                                     |        |  | %     |
| Policy fees and other income  | 1                                   | 1      |  | %     |
| Total revenues  | 214                                 | 194    | 20   | 10%   |
| <b>Benefits and expenses:</b>   |                                     |        |  |       |
| Benefits and other changes in policy reserves   | 20                                  | 35     | (15)   | (43)% |
| Acquisition and operating expenses, net of deferrals                                  | 41                                  | 43     | (2)  | (5)%  |
| Amortization of deferred acquisition costs and intangibles                            | 4                                   | 3      | 1  | 33%   |
| Total benefits and expenses   | 65                                  | 81     | (16)   | (20)% |
| Income from continuing operations before income taxes                                 | 149                                 | 113    | 36   | 32%   |
| Provision for income taxes  | 31                                  | 40     | (9)  | (23)% |
| Income from continuing operations   | 118                                 | 73     | 45   | 62%   |
| <b>Adjustments to income from continuing operations:</b>                              |                                     |        |  |       |
| Net investment (gains) losses   |                                     |        |  | %     |
| Taxes on adjustments  |                                     |        |  | %     |
| Adjusted operating income available to Genworth Financial, Inc.'s common stockholders | \$ 118                              | \$ 73  | \$ 45  | 62%   |

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased primarily attributable to higher premiums principally related to an increase in insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year. The increase was also attributable to lower new delinquencies and lower taxes in the current year.

***Revenues***

Premiums increased mainly attributable to higher insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year.

Net investment income increased primarily from higher average invested assets in the current year.

**Table of Contents*****Benefits and expenses***

Benefits and other changes in policy reserves decreased primarily driven by lower new delinquencies in the current year.

*Provision for income taxes.* The effective tax rate decreased to 21.2% for the three months ended September 30, 2018 from 35.9% for the three months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to a reduction in the U.S. corporate federal income tax rate from 35% to 21%.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our U.S. Mortgage Insurance segment for the periods indicated:

| <b>(Amounts in millions)</b>   | <b>Nine months ended<br/>September 30,</b> |               | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |              |
|--|--|---------------|--|--------------|
|  | <b>2018</b>                                | <b>2017</b>   |  |              |
| <b>Revenues:</b>   |  |               |  |              |
| Premiums   | \$ 553                                     | \$ 514        | \$ 39  | 8%           |
| Net investment income  | 67   | 53            | 14   | 26%          |
| Net investment gains (losses)  |  |               |  | %            |
| Policy fees and other income   | 2  | 3             | (1)  | (33)%        |
| <b>Total revenues</b>  | <b>622</b>                                 | <b>570</b>    | <b>52</b>  | <b>9%</b>    |
| <b>Benefits and expenses:</b>  |  |               |  |              |
| Benefits and other changes in policy reserves  | 22   | 67            | (45)   | (67)%        |
| Acquisition and operating expenses, net of deferrals   | 125  | 124           | 1  | 1%           |
| Amortization of deferred acquisition costs and intangibles                                   | 11   | 10            | 1  | 10%          |
| <b>Total benefits and expenses</b>   | <b>158</b>                                 | <b>201</b>    | <b>(43)</b>  | <b>(21)%</b> |
| <b>Income from continuing operations before income taxes</b>                                 | <b>464</b>                                 | <b>369</b>    | <b>95</b>  | <b>26%</b>   |
| <b>Provision for income taxes</b>  | <b>98</b>                                  | <b>132</b>    | <b>(34)</b>  | <b>(26)%</b> |
| <b>Income from continuing operations</b>   | <b>366</b>                                 | <b>237</b>    | <b>129</b>   | <b>54%</b>   |
| <b>Adjustments to income from continuing operations:</b>                                     |  |               |  |              |
| Net investment (gains) losses  |  |               |  | %            |
| Taxes on adjustments   |  |               |  | %            |
| <b>Adjusted operating income available to Genworth Financial, Inc.'s common stockholders</b> | <b>\$ 366</b>                              | <b>\$ 237</b> | <b>\$ 129</b>  | <b>54%</b>   |

***Adjusted operating income available to Genworth Financial, Inc.'s common stockholders***

Adjusted operating income available to Genworth Financial, Inc.'s common stockholders increased mainly from lower losses, driven mostly by a \$22 million favorable reserve adjustment in the current year principally from lower expected claim rates. The increase was also attributable to higher mortgage insurance in-force and lower taxes in the current year. The prior year included a \$10 million favorable reserve adjustment.

***Revenues***

Premiums increased mainly attributable to higher insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year.

Net investment income increased primarily from higher average invested assets in the current year.

**Table of Contents****Benefits and expenses**

Benefits and other changes in policy reserves decreased primarily from a \$28 million favorable reserve adjustment in the current year mostly driven by lower expected claim rates. The decrease was also attributable to lower new delinquencies and favorable net cures and aging of existing delinquencies in the current year. The prior year included a \$15 million favorable reserve adjustment.

*Provision for income taxes.* The effective tax rate decreased to 21.2% for the nine months ended September 30, 2018 from 35.9% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to a reduction in the U.S. corporate federal income tax rate from 35% to 21%.

**U.S. Mortgage Insurance selected operating performance measures**

The following tables set forth selected operating performance measures regarding our U.S. Mortgage Insurance segment as of or for the dates indicated:

| (Amounts in millions)                     | As of September 30, |            | Increase<br>(decrease) and<br>percentage change |     |
|---|---------------------|------------|---|-----|
|   | 2018                | 2017       | 2018 vs. 2017                                   |     |
| Primary insurance in-force <sup>(1)</sup> | \$ 163,200          | \$ 148,000 | \$ 15,200                                       | 10% |
| Risk in-force                             | \$ 39,600           | \$ 35,900  | \$ 3,700  | 10% |

- (1) Primary insurance in-force represents the aggregate original loan balance for outstanding insurance policies and is used to determine premiums. Original loan balances are presented for policies with level renewal premiums. Amortized loan balances are presented for policies with annual, amortizing renewal premiums.

| (Amounts in millions) | Three months<br>ended<br>September 30, |           | Increase<br>(decrease) and<br>percentage<br>change |      | Nine months<br>ended<br>September 30, |           | Increase<br>(decrease)<br>and<br>percentage<br>change |    |
|-----------------------|--|-----------|--|------|---------------------------------------|-----------|---|----|
|                       | 2018                                   | 2017      | 2018 vs. 2017                                      |      | 2018                                  | 2017      | 2018 vs. 2017   |    |
| New insurance written | \$ 10,300                              | \$ 11,300 | \$ (1,000)   | (9)% | \$ 30,700                             | \$ 28,700 | \$ 2,000  | 7% |
| Net premiums written  | \$ 195                                 | \$ 200    | \$ (5)   | (3)% | \$ 571                                | \$ 561    | \$ 10   | 2% |

**Primary insurance in-force and risk in-force**

Primary insurance in-force increased largely from \$15.6 billion in higher flow insurance in-force, which increased from \$146.4 billion as of September 30, 2017 to \$162.0 billion as of September 30, 2018 as a result of new insurance written, partially offset by lapses during the current year. The increase in flow insurance in-force was partially offset by a decline of \$0.4 billion in bulk insurance in-force, which decreased from \$1.6 billion as of September 30, 2017 to \$1.2 billion as of September 30, 2018 from cancellations and lapses. In addition, risk in-force increased primarily as a result of higher flow insurance in-force. Flow persistency was 83% for both the nine months ended September 30, 2018 and 2017.

*New insurance written*

For the three months ended September 30, 2018, new insurance written decreased primarily due to a decline in our estimated market share mostly driven by the loss of a large customer, partially offset by a larger private mortgage insurance available market in the current year. For the nine months ended September 30, 2018, new insurance written increased primarily from a larger purchase originations market in the current year.

*Net premiums written*

Net premiums written for the three months ended September 30, 2018 decreased primarily from lower volume within our single premium lender paid business, partially offset by higher insurance in-force in the

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current year. Net premiums written for the nine months ended September 30, 2018 increased primarily from higher insurance in-force, partially offset by lower average rates on our mortgage insurance in-force in the current year.

*Loss and expense ratios*

The following table sets forth the loss and expense ratios for our U.S. Mortgage Insurance segment for the dates indicated:

|                                      | Three months ended    |                       |                                      | Nine months ended     |                       |                                      |
|--------------------------------------|-----------------------|-----------------------|--------------------------------------|-----------------------|-----------------------|--------------------------------------|
|                                      | September 30,<br>2018 | September 30,<br>2017 | Increase (decrease)<br>2018 vs. 2017 | September 30,<br>2018 | September 30,<br>2017 | Increase (decrease)<br>2018 vs. 2017 |
| Loss ratio                           | 11%                   | 20%                   | (9)%                                 | 4%                    | 13%                   | (9)%                                 |
| Expense ratio (net earned premiums)  | 23%                   | 26%                   | (3)%                                 | 25%                   | 26%                   | (1)%                                 |
| Expense ratio (net premiums written) | 23%                   | 23%                   | %                                    | 24%                   | 24%                   | %                                    |

The loss ratio is the ratio of benefits and other changes in policy reserves to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our business, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of DAC and intangibles.

The loss ratio for the three and nine months ended September 30, 2018 decreased primarily from lower new delinquencies and from higher net earned premiums attributable to higher insurance in-force in the current year. The decrease in the loss ratio for the nine months ended September 30, 2018 was also attributable to a favorable reserve adjustment of \$28 million in the current year mostly associated with lower expected claim rates and from improvements in net benefits from cures and aging of existing delinquencies. The current year reserve adjustment reduced the loss ratio by five percentage points for the nine months ended September 30, 2018. The prior year included a \$15 million favorable reserve adjustment.

The expense ratio (net earned premiums) for the three and nine months ended September 30, 2018 decreased driven primarily by higher net earned premiums in the current year.



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The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our U.S. mortgage insurance portfolio as of the dates indicated:

|   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>September 30,<br/>2017</b> |
|---|-------------------------------|------------------------------|-------------------------------|
| Primary insurance:  |                               |                              |                               |
| Insured loans in-force  | 773,290                       | 742,094                      | 730,174                       |
| Delinquent loans  | 16,874                        | 23,188                       | 20,508                        |
| Percentage of delinquent loans<br>(delinquency rate)                          | 2.18%                         | 3.12%                        | 2.81%                         |
| Flow loan in-force  | 759,965                       | 725,748                      | 712,848                       |
| Flow delinquent loans   | 16,367                        | 22,483                       | 19,765                        |
| Percentage of flow delinquent loans<br>(delinquency rate)                     | 2.15%                         | 3.10%                        | 2.77%                         |
| Bulk loans in-force   | 13,325                        | 16,346                       | 17,326                        |
| Bulk delinquent loans <sup>(1)</sup>  | 507                           | 705                          | 743                           |
| Percentage of bulk delinquent loans<br>(delinquency rate)                     | 3.80%                         | 4.31%                        | 4.29%                         |
| A minus and sub-prime loans<br>in-force                                       | 16,087                        | 18,912                       | 19,828                        |
| A minus and sub-prime delinquent<br>loans                                     | 2,817                         | 4,054                        | 4,080                         |
| Percentage of A minus and<br>sub-prime delinquent loans<br>(delinquency rate) | 17.51%                        | 21.44%                       | 20.58%                        |
| Pool insurance:   |                               |                              |                               |
| Insured loans in-force  | 4,636                         | 5,039                        | 5,145                         |
| Delinquent loans  | 215                           | 249                          | 252                           |
| Percentage of delinquent loans<br>(delinquency rate)                          | 4.64%                         | 4.94%                        | 4.90%                         |

- <sup>(1)</sup> Included loans where we were in a secondary loss position for which no reserve was established due to an existing deductible. Excluding these loans, bulk delinquent loans were 415 as of September 30, 2018, 614 as of December 31, 2017 and 631 as of September 30, 2017.

Delinquency and foreclosure levels that developed principally in our 2005 through 2008 book years have declined as the residential real estate market in the United States stabilized and improved during the current and prior year, and we also had lower foreclosure starts in the current year. However, our 2005 through 2008 book years continue to make up a majority of our existing delinquencies as well as new delinquencies, therefore, we may experience variability in our delinquency rates.



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The following tables set forth flow delinquencies, direct case reserves and risk in-force by aged missed payment status in our U.S. mortgage insurance portfolio as of the dates indicated:

|                              |               | September 30, 2018             |                  |                                   |
|------------------------------|---------------|--------------------------------|------------------|-----------------------------------|
|                              |               | Direct case<br>reserves<br>(1) | Risk<br>in-force | Reserves as %<br>of risk in-force |
| (Dollar amounts in millions) | Delinquencies |                                |                  |                                   |
| Payments in default:         |               |                                |                  |                                   |
| 3 payments or less           | 7,656         | \$ 29                          | \$ 329           | 9%                                |
| 4 - 11 payments              | 4,641         | 94                             | 213              | 44%                               |
| 12 payments or more          | 4,070         | 157                            | 204              | 77%                               |
| Total                        | 16,367        | \$ 280                         | \$ 746           | 38%                               |

(1) Direct flow case reserves exclude loss adjustment expenses, incurred but not reported and reinsurance reserves.

|                              |               | December 31, 2017              |                  |                                   |
|------------------------------|---------------|--------------------------------|------------------|-----------------------------------|
|                              |               | Direct case<br>reserves<br>(1) | Risk<br>in-force | Reserves as %<br>of risk in-force |
| (Dollar amounts in millions) | Delinquencies |                                |                  |                                   |
| Payments in default:         |               |                                |                  |                                   |
| 3 payments or less           | 10,594        | \$ 46                          | \$ 474           | 10%                               |
| 4 - 11 payments              | 6,178         | 125                            | 279              | 45%                               |
| 12 payments or more          | 5,711         | 237                            | 281              | 84%                               |
| Total                        | 22,483        | \$ 408                         | \$ 1,034         | 39%                               |

(1) Direct flow case reserves exclude loss adjustment expenses, incurred but not reported and reinsurance reserves.

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Primary insurance delinquency rates differ from region to region in the United States at any one time depending upon economic conditions and cyclical growth patterns. The tables below set forth our primary delinquency rates for the various regions of the United States and the 10 largest states by our risk in-force as of the dates indicated.

Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

|                              | Percent of primary<br>risk<br>in-force as<br>of<br>September 30,<br>2018 | Percent of total<br>reserves<br>as of<br>September 30,<br>2018 <sup>(1)</sup> | September 30,<br>2018 | Delinquency rate<br>December 31,<br>2017 | September 30,<br>2017 |
|------------------------------|--|---|-----------------------|--|-----------------------|
| By Region:                   |  |   |                       |  |                       |
| Southeast <sup>(2)</sup>     | 18 %   | 23%   | 2.65%                 | 4.60%                                    | 3.28%                 |
| Pacific <sup>(3)</sup>       | 16   | 9   | 1.27%                 | 1.56%                                    | 1.52%                 |
| South Central <sup>(4)</sup> | 16   | 12  | 2.09%                 | 3.30%                                    | 2.63%                 |
| Northeast <sup>(5)</sup>     | 12   | 28  | 3.47%                 | 4.67%                                    | 4.94%                 |
| North Central <sup>(6)</sup> | 11   | 9   | 1.96%                 | 2.34%                                    | 2.30%                 |
| Great Lakes <sup>(7)</sup>   | 11   | 6   | 1.67%                 | 2.09%                                    | 2.11%                 |
| Mid-Atlantic <sup>(8)</sup>  | 6  | 5   | 2.05%                 | 2.79%                                    | 2.92%                 |
| New England <sup>(9)</sup>   | 6  | 6   | 2.26%                 | 2.75%                                    | 2.83%                 |
| Plains <sup>(10)</sup>       | 4  | 2   | 1.82%                 | 2.36%                                    | 2.27%                 |
| Total                        | 100 %  | 100%  | 2.18%                 | 3.12%                                    | 2.81%                 |

(1) Total reserves were \$317 million as of September 30, 2018.

(2) Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina and Tennessee.

(3) Alaska, California, Hawaii, Nevada, Oregon and Washington.

(4) Arizona, Colorado, Louisiana, New Mexico, Oklahoma, Texas and Utah.

(5) New Jersey, New York and Pennsylvania.

(6) Illinois, Minnesota, Missouri and Wisconsin.

(7) Indiana, Kentucky, Michigan and Ohio.

(8) Delaware, Maryland, Virginia, Washington D.C. and West Virginia.

(9) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

(10) Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

|           | Percent of primary<br>risk<br>in-force<br>as of<br>September 30,<br>2018 | Percent of total<br>reserves<br>as of<br>September 30,<br>2018 <sup>(1)</sup> | September 30,<br>2018 | Delinquency rate<br>December 31,<br>2017 | September 30,<br>2017 |
|-----------|--|---|-----------------------|--|-----------------------|
| By State: |  |   |                       |  |                       |

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|                |    |     |       |       |       |
|----------------|----|-----|-------|-------|-------|
| California     | 9% | 4%  | 1.22% | 1.45% | 1.35% |
| Texas          | 7% | 5%  | 2.33% | 4.41% | 2.94% |
| Florida        | 6% | 13% | 3.14% | 7.99% | 3.54% |
| Illinois       | 6% | 6%  | 2.23% | 2.70% | 2.70% |
| New York       | 5% | 16% | 3.75% | 4.77% | 5.09% |
| Washington     | 5% | 2%  | 0.99% | 1.19% | 1.20% |
| Michigan       | 4% | 2%  | 1.28% | 1.51% | 1.47% |
| Pennsylvania   | 4% | 4%  | 2.71% | 3.50% | 3.59% |
| Ohio           | 4% | 2%  | 1.90% | 2.43% | 2.44% |
| North Carolina | 4% | 2%  | 2.05% | 2.67% | 2.80% |

(1) Total reserves were \$317 million as of September 30, 2018.

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The following table sets forth the dispersion of our total reserves and primary insurance in-force and risk in-force by year of policy origination and average annual mortgage interest rate as of September 30, 2018:

| (Amounts in millions)  | Average<br>rate | Percent of total<br>reserves<br>(1) | Primary<br>insurance<br>in-force | Percent<br>of<br>total | Primary<br>risk<br>in-force | Percent<br>of<br>total |
|------------------------|-----------------|-------------------------------------|----------------------------------|------------------------|-----------------------------|------------------------|
| <b>Policy Year</b>     |                 |                                     |                                  |                        |                             |                        |
| 2004 and prior         | 6.05%           | 9.3%                                | 1,770                            | 1.1%                   | 338                         | 0.9%                   |
| 2005                   | 5.56%           | 8.1                                 | 1,664                            | 1.0                    | 392                         | 1.0                    |
| 2006                   | 5.71%           | 13.2                                | 3,189                            | 2.0                    | 743                         | 1.9                    |
| 2007                   | 5.63%           | 28.6                                | 8,375                            | 5.1                    | 1,936                       | 4.9                    |
| 2008                   | 5.15%           | 14.6                                | 6,942                            | 4.3                    | 1,590                       | 4.0                    |
| 2009                   | 4.91%           | 0.5                                 | 594                              | 0.4                    | 124                         | 0.3                    |
| 2010                   | 4.63%           | 0.6                                 | 682                              | 0.4                    | 157                         | 0.4                    |
| 2011                   | 4.55%           | 0.7                                 | 1,146                            | 0.7                    | 266                         | 0.7                    |
| 2012                   | 3.86%           | 0.9                                 | 3,175                            | 1.9                    | 763                         | 1.9                    |
| 2013                   | 4.08%           | 2.0                                 | 6,023                            | 3.7                    | 1,485                       | 3.8                    |
| 2014                   | 4.45%           | 4.3                                 | 9,874                            | 6.1                    | 2,398                       | 6.0                    |
| 2015                   | 4.14%           | 5.7                                 | 19,327                           | 11.8                   | 4,699                       | 11.9                   |
| 2016                   | 3.87%           | 6.8                                 | 34,617                           | 21.2                   | 8,358                       | 21.2                   |
| 2017                   | 4.24%           | 4.2                                 | 35,807                           | 21.9                   | 8,782                       | 22.2                   |
| 2018                   | 4.68%           | 0.5                                 | 30,021                           | 18.4                   | 7,461                       | 18.9                   |
| <b>Total portfolio</b> | <b>4.46%</b>    | <b>100.0%</b>                       | <b>\$ 163,206</b>                | <b>100.0%</b>          | <b>\$ 39,492</b>            | <b>100.0%</b>          |

(1) Total reserves were \$317 million as of September 30, 2018.

**Canada Mortgage Insurance segment*****Trends and conditions***

Results of our mortgage insurance business in Canada are affected primarily by changes in the regulatory environment, employment levels, consumer borrowing behavior, lender mortgage-related strategies, including lender servicing practices, and other economic and housing market influences, including interest rate trends, home price appreciation or depreciation, mortgage origination volume, levels and aging of mortgage delinquencies and movements in foreign currency exchange rates. During the third quarter of 2018, the Canadian dollar weakened against the U.S. dollar compared to both the third quarter of 2017 and the second quarter of 2018, which negatively impacted the results of our mortgage insurance business in Canada as reported in U.S. dollars. Any future movement in foreign exchange rates could impact future results.

The Canadian GDP is expected to have experienced a decrease in growth in the third quarter of 2018 compared to the second quarter of 2018, reflecting fluctuations in energy production and exports. The overnight interest rate in Canada increased to 1.75% in October 2018 up from 1.50% at September 30, 2018 and 1.25% at the end of the second quarter of 2018. Canada's unemployment rate decreased slightly to 5.9% at the end of the third quarter of 2018 compared to 6.0% at the end of the second quarter of 2018 due to job creation outpacing workforce participation.

National home prices increased in the third quarter of 2018 by approximately 2% compared to the third quarter of 2017 largely driven by the strong housing market in British Columbia. Home sales in the third quarter of 2018 decreased by approximately 4% compared to the third quarter of 2017 primarily due to a slowdown in sales in British Columbia, which was primarily driven by regulatory and housing policy changes, including the October 2017 release of Guideline B-20 Residential Mortgage Underwriting Practices and Procedures (the B-20 Guideline ) as discussed below. In addition, on February 20, 2018, the British Columbia Government

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released a plan to address housing affordability in the province. Among other measures, the plan included an increase and expansion of the existing foreign buyers tax and the introduction of a speculation tax applicable to both foreign and domestic buyers.

Our mortgage insurance business in Canada experienced relatively flat losses in the third quarter of 2018 compared to the third quarter of 2017 primarily from lower new delinquencies, net of cures, and a lower average reserve per delinquency, offset by lower favorable development in our loss reserves. Our loss ratio in Canada was 14% for both the third quarter of 2018 and the nine months ended September 30, 2018. Given our loss ratio performance thus far in 2018 and the economic forecast for the balance of the year, we expect our full year 2018 loss ratio to be higher than our full year 2017 loss ratio of 10%.

In the third quarter of 2018, flow new insurance written volumes were down in our mortgage insurance business in Canada compared to the third quarter of 2017 primarily resulting from a smaller originations market due to regulatory changes and ongoing housing affordability pressure. Earned premiums were lower mainly as a result of changes in foreign exchange rates and updated premium recognition factors from the review of our premium earnings pattern in the current year.

Bulk new insurance written levels in the third quarter of 2018 were relatively consistent compared to the third quarter of 2017. Insurance written from bulk mortgage insurance varies from period to period based on a number of factors, including the amount of bulk mortgages lenders seek to insure, the competitiveness of our pricing and our risk appetite for such mortgage insurance.

We are subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada) ( PRMHIA ) and the Insurance Companies Act (Canada), under which our mortgage insurance business in Canada is required to meet a minimum capital test ( MCT ) to support its outstanding mortgage insurance in-force per the guideline titled Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies ( MCT Guideline ). The MCT ratio is calculated based on a methodology prescribed by the Office of the Superintendent of Financial Institutions ( OSFI ). On January 1, 2017, the capital advisory titled Capital Requirements for Federally Regulated Mortgage Insurers (the Advisory ) became effective. The Advisory provides a standard framework for determining the capital requirements for residential mortgage insurance companies. Under this regulatory capital framework, the OSFI Supervisory MCT Target and PRMHIA requirement are both 150%.

Compared to the prior capital framework, this framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The Advisory includes supplementary capital requirements on new business in areas where home prices are high relative to borrower incomes upon origination. As a result of these higher regulatory capital requirements, our mortgage insurance business in Canada implemented an increase in premium rates of approximately 20% on flow new business effective March 17, 2017. Similarly, the business also increased its premium rates for bulk insurance. As of September 30, 2018, our MCT ratio under the framework was approximately 171%, which was above the supervisory target.

On August 9, 2018, OSFI released the guideline Mortgage Insurer Capital Adequacy Test ( MICAT ), which takes effect on January 1, 2019 and replaces the Advisory and MCT Guideline. The OSFI supervisory MICAT target ratio and the minimum MICAT ratio under PRMHIA remains at 150% for 2019. The MICAT primarily consolidates existing guidance and is not expected to have a material impact on regulatory capital. The primary changes include a 5% increase of the base total asset requirement relative to the current calculation, elimination of the requirement to use updated 2016 credit scores for 2015 and prior books in the calculation of the base asset requirement and a transitional arrangement that provides a phase-in period for the increased capital required for insurance risk on outstanding insured mortgages at December 31, 2018. The business expects that in 2019, the impact of the elimination of the 2016



credit score update should more than offset the 5% base total asset requirement on existing insurance in-force. Therefore, the business expects to be fully compliant with

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MICAT upon its implementation on January 1, 2019, subject to business and market conditions. In addition, these new requirements should permit the business to more closely align its actual capital levels with its targeted operating range for 2019 and thereafter, which may allow for meaningful levels of capital redeployment in addition to regular quarterly dividends in 2019.

On October 17, 2017, OSFI released the final version of the B-20 Guideline, which applies to all federally-regulated financial institutions that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada. The guideline was effective January 1, 2018, and requires enhanced underwriting practices for all uninsured mortgages, including the application of a qualifying stress test. The B-20 Guideline does not directly impact the regulatory requirements for our mortgage insurance business in Canada, as it is governed by OSFI's Guideline B-21 Residential Mortgage Insurance Underwriting Practices and Procedures. Based on mortgage origination volume in the first nine months of 2018, we believe that the B-20 Guideline may reduce total mortgage originations in Canada in 2018 by 10% to 15% as compared to the prior year and that it will modestly reduce the high loan-to-value market size in Canada in 2018 even though qualifying insured mortgages have been subject to a mortgage rate stress test since November 30, 2016. However, it is still too early to determine its ultimate effect on the Canadian mortgage and housing markets.

**Table of Contents****Segment results of operations****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The following table sets forth the results of operations relating to our Canada Mortgage Insurance segment for the periods indicated:

|   | Three months ended<br>September 30, |        | Increase<br>(decrease) and<br>percentage<br>change |        |
|---|-------------------------------------|--------|--|--------|
| (Amounts in millions)   | 2018                                | 2017   | 2018 vs. 2017                                      |        |
| Revenues:   |                                     |        |  |        |
| Premiums  | \$ 127                              | \$ 131 | \$ (4)   | (3)%   |
| Net investment income   | 34                                  | 33     | 1  | 3%     |
| Net investment gains (losses)   | 29                                  | 55     | (26)   | (47)%  |
| Policy fees and other income  |                                     | 1      | (1)  | (100)% |
| Total revenues  | 190                                 | 220    | (30)   | (14)%  |
| Benefits and expenses:  |                                     |        |  |        |
| Benefits and other changes in policy reserves   | 18                                  | 18     |  | %      |
| Acquisition and operating expenses, net of deferrals  | 17                                  | 20     | (3)  | (15)%  |
| Amortization of deferred acquisition costs and intangibles  | 11                                  | 11     |  | %      |
| Interest expense  | 4                                   | 4      |  | %      |
| Total benefits and expenses   | 50                                  | 53     | (3)  | (6)%   |
| Income from continuing operations before income taxes   | 140                                 | 167    | (27)   | (16)%  |
| Provision for income taxes  | 37                                  | 55     | (18)   | (33)%  |
| Income from continuing operations   | 103                                 | 112    | (9)  | (8)%   |
| Less: income from continuing operations attributable to noncontrolling interests                              | 46                                  | 54     | (8)  | (15)%  |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders                 | 57                                  | 58     | (1)  | (2)%   |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: |                                     |        |  |        |
| Net investment (gains) losses, net <sup>(1)</sup>   | (17)                                | (32)   | 15   | 47%    |
| Expenses related to restructuring   |                                     | 1      | (1)  | (100)% |
| Taxes on adjustments  | 4                                   | 10     | (6)  | (60)%  |
|   | \$ 44                               | \$ 37  | \$ 7   | 19%    |

Adjusted operating income available to Genworth Financial,  
Inc. s common stockholders

- (1) For the three months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$12 million and \$23 million, respectively.

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased primarily from lower income taxes and a decrease in acquisition and operating expenses, net of deferrals, partially offset by lower premiums in the current year.

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***Revenues***

Premiums decreased primarily from changes in foreign exchange rates and from updated premium recognition factors from the review of our premium earnings pattern in the current year. The three months ended September 30, 2018 included a decrease of \$3 million attributable to changes in foreign exchange rates.

Net investment gains decreased predominantly from lower derivative gains on interest rate swaps, cross currency interest rate swaps, foreign currency forward contracts and from losses on rate floors in the current year.

***Benefits and expenses***

Benefits and other changes in policy reserves were flat as lower new delinquencies, net of cures, and a lower average reserve per delinquency were offset by lower favorable development in our loss reserves in the current year.

Acquisition and operating expenses, net of deferrals, decreased mainly driven by lower stock-based compensation expense in the current year.

*Provision for income taxes.* The effective tax rate decreased to 26.5% for the three months ended September 30, 2018 from 32.9% for the three months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the change from a worldwide tax system to a territorial system under the TCJA. As a result, we are now generally taxed at our jurisdictional rate of 27%.

**Table of Contents*****Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our Canada Mortgage Insurance segment for the periods indicated:

| <b>(Amounts in millions)</b>  | <b>Nine months ended<br/>September 30,<br/>2018      2017</b> |               | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |              |
|---|---|---------------|--|--------------|
| Revenues:   |   |               |  |              |
| Premiums  | \$ 397  | \$ 383        | \$ 14  | 4%           |
| Net investment income   | 102   | 96            | 6  | 6%           |
| Net investment gains (losses)   | (1)   | 113           | (114)  | (101)%       |
| Policy fees and other income  |   | 1             | (1)  | (100)%       |
| <b>Total revenues</b>   | <b>498</b>  | <b>593</b>    | <b>(95)</b>  | <b>(16)%</b> |
| Benefits and expenses:  |   |               |  |              |
| Benefits and other changes in policy reserves   | 55  | 42            | 13   | 31%          |
| Acquisition and operating expenses, net of deferrals  | 54  | 57            | (3)  | (5)%         |
| Amortization of deferred acquisition costs and intangibles  | 32  | 32            |  | %            |
| Interest expense  | 13  | 13            |  | %            |
| <b>Total benefits and expenses</b>  | <b>154</b>  | <b>144</b>    | <b>10</b>  | <b>7%</b>    |
| Income from continuing operations before income taxes   | 344   | 449           | (105)  | (23)%        |
| Provision for income taxes  | 91  | 147           | (56)   | (38)%        |
| Income from continuing operations   | 253   | 302           | (49)   | (16)%        |
| Less: income from continuing operations attributable to noncontrolling interests                              | 114   | 146           | (32)   | (22)%        |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders                 | 139   | 156           | (17)   | (11)%        |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: |   |               |  |              |
| Net investment (gains) losses, net <sup>(1)</sup>   |   | (65)          | 65   | 100%         |
| Expenses related to restructuring   |   | 1             | (1)  | (100)%       |
| Taxes on adjustments  |   | 22            | (22)   | (100)%       |
| <b>Adjusted operating income available to Genworth Financial, Inc. s common stockholders</b>                  | <b>\$ 139</b>   | <b>\$ 114</b> | <b>\$ 25</b>   | <b>22%</b>   |

- (1) For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$(1) million and \$48 million, respectively.

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased mainly driven by lower income taxes and higher premiums, partially offset by higher losses in the current year.

***Revenues***

Premiums increased primarily from changes in foreign exchange rates in the current year and from the seasoning of our larger, more recent in-force blocks of business. The nine months ended September 30, 2018 included an increase of \$10 million attributable to changes in foreign exchange rates.

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Net investment income increased largely from higher average invested assets and from changes in foreign exchange rates in the current year.

Net investment losses in the current year were principally from changes in the fair value of equity securities and net losses from the sale of investment securities, mostly offset by derivative gains. Net investment gains in the prior year were predominantly from derivative gains on interest rate swaps, foreign currency forward contracts and cross currency interest rate swaps, as well as foreign exchange gains on the sale of non-functional currency investment securities.

**Benefits and expenses**

Benefits and other changes in policy reserves increased largely from lower favorable development in our loss reserves and higher new delinquencies, net of cures, partially offset by a lower average reserve per delinquency in the current year.

*Provision for income taxes.* The effective tax rate decreased to 26.5% for the nine months ended September 30, 2018 from 32.7% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the change from a worldwide tax system to a territorial system under the TCJA. As a result, we are now generally taxed at our jurisdictional rate of 27%.

**Canada Mortgage Insurance selected operating performance measures**

The following tables set forth selected operating performance measures regarding our Canada Mortgage Insurance segment as of or for the dates indicated:

| (Amounts in millions)      | As of September 30, |            | Increase (decrease) and percentage change |   |
|----------------------------|---------------------|------------|---|---|
|                            | 2018                | 2017       | 2018 vs. 2017                             |   |
| Primary insurance in-force | \$ 389,400          | \$ 390,700 | \$ (1,300)                                | % |
| Risk in-force              | \$ 136,300          | \$ 136,700 | \$ (400)                                  | % |

  

| (Amounts in millions) | Three months ended September 30, |          | Increase (decrease) and percentage change |      | Nine months ended September 30, |           | Increase (decrease) and percentage change |       |
|-----------------------|----------------------------------|----------|---|------|---------------------------------|-----------|---|-------|
|                       | 2018                             | 2017     | 2018 vs. 2017                             |      | 2018                            | 2017      | 2018 vs. 2017                             |       |
| New insurance written | \$ 4,800                         | \$ 5,000 | \$ (200)                                  | (4)% | \$ 12,800                       | \$ 19,800 | \$ (7,000)                                | (35)% |
| Net premiums written  | \$ 150                           | \$ 156   | \$ (6)                                    | (4)% | \$ 375                          | \$ 378    | \$ (3)                                    | (1)%  |

*Primary insurance in-force and risk in-force*

Our mortgage insurance business in Canada currently provides 100% coverage on the majority of the loans we insure in that market. For the purpose of representing our risk in-force, we have computed an effective risk in-force amount,



which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our business in Canada. For the three and nine months ended September 30, 2018 and 2017, this factor was 35%.

Primary insurance in-force and risk in-force decreased primarily as a result of changes in foreign exchange rates, partially offset by flow new insurance written. Insurance in-force and risk in-force included decreases of \$14.3 billion and \$5.0 billion, respectively, attributable to changes in foreign exchange rates.

**Table of Contents***New insurance written*

New insurance written decreased for the three months ended September 30, 2018 largely as a result of lower flow mortgage insurance written primarily from a smaller market size due in part to the impact of regulatory changes and ongoing housing affordability pressure. New insurance written decreased for the nine months ended September 30, 2018 predominantly from a decrease of \$7.1 billion in bulk mortgage insurance written in the current year. The first quarter of 2017 included an increase in bulk insurance volumes primarily due to the closing of several large bulk insurance transactions on applications received in the fourth quarter of 2016 ahead of regulatory changes. New insurance written for the three and nine months ended September 30, 2018 included a decrease of \$100 million and an increase of \$300 million, respectively, attributable to changes in foreign exchange rates.

*Net premiums written*

Our mortgage insurance policies in Canada provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected pattern of risk emergence. Our unearned premium reserves were \$1.6 billion and \$1.7 billion as of September 30, 2018 and September 30, 2017, respectively. The change in unearned premium reserves included a decrease of \$60 million attributable to changes in foreign exchange rates.

Net premiums written decreased for the three months ended September 30, 2018 primarily from lower flow new insurance written, lower average premium rates on bulk insurance and a decrease of \$3 million attributable to changes in foreign exchange rates, partially offset by an increase in flow premium rates. Net premiums written decreased for the nine months ended September 30, 2018 primarily from lower bulk mortgage insurance written due to regulatory changes, partially offset by an increase in flow premium rates. The nine months ended September 30, 2018 included an increase of \$8 million attributable to changes in foreign exchange rates.

*Loss and expense ratios*

The following table sets forth the loss and expense ratios for our Canada Mortgage Insurance segment for the periods indicated:

|                                      | <b>Three months ended</b> |             |  | <b>Nine months ended</b>  |             |  |
|--------------------------------------|---------------------------|-------------|--|---------------------------|-------------|--|
|                                      | <b>September 30, 2018</b> | <b>2017</b> | <b>Increase (decrease) 2018 vs. 2017</b> | <b>September 30, 2018</b> | <b>2017</b> | <b>Increase (decrease) 2018 vs. 2017</b> |
| Loss ratio                           | 14%                       | 14%         | %  | 14%                       | 11%         | 3%                                       |
| Expense ratio (net earned premiums)  | 22%                       | 23%         | (1)%                                     | 22%                       | 23%         | (1)%                                     |
| Expense ratio (net premiums written) | 19%                       | 20%         | (1)%                                     | 23%                       | 23%         | %  |

The loss ratio is the ratio of benefits and other changes in policy reserves to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our mortgage insurance business in Canada, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of DAC and intangibles.

The loss ratio increased for the nine months ended September 30, 2018 primarily from lower favorable development in our loss reserves and higher new delinquencies, net of cures, as overall favorable regional macroeconomic conditions began to normalize in 2018 after experiencing considerable strength in 2017. These increases were partially offset by a lower average reserve per delinquency in the current year.

The expense ratio (net earned premiums) decreased for the three and nine months ended September 30, 2018 primarily from lower stock-based compensation expense in the current year. The decrease for the nine months ended September 30, 2018 was partially offset by higher earned premiums in the current year.

The expense ratio (net premiums written) decreased for the three months ended September 30, 2018 largely from lower stock-based compensation expense, partially offset by lower net premiums written in the current year.

**Table of Contents***Delinquent loans*

The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our Canada mortgage insurance portfolio as of the dates indicated:

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>September 30,<br/>2017</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Primary insured loans in-force                         | 2,133,618                     | 2,110,324                    | 2,098,771                     |
| Delinquent loans                                       | 1,695                         | 1,718                        | 1,759                         |
| Percentage of delinquent loans (delinquency rate)      | 0.08%                         | 0.08%                        | 0.08%                         |
| Flow loans in-force                                    | 1,486,859                     | 1,447,794                    | 1,434,662                     |
| Flow delinquent loans                                  | 1,327                         | 1,369                        | 1,434                         |
| Percentage of flow delinquent loans (delinquency rate) | 0.09%                         | 0.09%                        | 0.10%                         |
| Bulk loans in-force                                    | 646,759                       | 662,530                      | 664,109                       |
| Bulk delinquent loans                                  | 368                           | 349                          | 325                           |
| Percentage of bulk delinquent loans (delinquency rate) | 0.06%                         | 0.05%                        | 0.05%                         |

Flow mortgage loans in-force increased from new policies written. The number of delinquent loans of our flow mortgage insurance decreased compared to December 31, 2017 and September 30, 2017 driven primarily by stable housing performance and continued favorable macroeconomic conditions.

Primary insurance delinquency rates differ by the various provinces and territories of Canada at any one time depending upon economic conditions and cyclical growth patterns. The table below sets forth our primary delinquency rates for the various provinces and territories of Canada by our risk in-force as of the dates indicated. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

|                            | <b>Percent<br/>of<br/>primary<br/>risk<br/>in-force<br/>as of<br/>September 30,<br/>2018</b> | <b>September 30,<br/>2018</b> | <b>Delinquency rate<br/>December 31,<br/>2017</b> | <b>September 30,<br/>2017</b> |
|----------------------------|--|-------------------------------|---|-------------------------------|
| By province and territory: |  |                               |   |                               |
| Ontario                    | 47%  | 0.03%                         | 0.03%   | 0.03%                         |
| Alberta                    | 16   | 0.17%                         | 0.17%   | 0.18%                         |
| British Columbia           | 14   | 0.04%                         | 0.05%   | 0.05%                         |
| Quebec                     | 13   | 0.10%                         | 0.11%   | 0.12%                         |
| Saskatchewan               | 3  | 0.28%                         | 0.28%   | 0.25%                         |

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|               |      |       |       |       |
|---------------|------|-------|-------|-------|
| Nova Scotia   | 2    | 0.14% | 0.16% | 0.16% |
| Manitoba      | 2    | 0.11% | 0.08% | 0.09% |
| New Brunswick | 1    | 0.12% | 0.16% | 0.15% |
| All other     | 2    | 0.19% | 0.17% | 0.16% |
| Total         | 100% | 0.08% | 0.08% | 0.08% |

Delinquency rates remained flat compared to December 31, 2017 and September 30, 2017 reflecting regional housing market improvement, primarily in Quebec and Alberta, driven mostly by continued favorable macroeconomic conditions that began in 2017, offset by normalizing macroeconomic conditions within other regions.

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As a part of enhanced lender reporting, we receive updated outstanding loans in-force in Canada from almost all of our customers. Based on the data provided by lenders, the delinquency rate as of September 30, 2018 was 0.18%, reflecting a lower number of outstanding loans and related policies in-force compared to our reported policies in-force.

### **Australia Mortgage Insurance segment**

#### ***Trends and conditions***

Results of our mortgage insurance business in Australia are affected primarily by changes in regulatory environments, employment levels, consumer borrowing behavior, lender mortgage-related strategies, including lender servicing practices, and other economic and housing market influences, including interest rate trends, home price appreciation or depreciation, mortgage origination volume, levels and aging of mortgage delinquencies and movements in foreign currency exchange rates. During the third quarter of 2018, the Australian dollar weakened against the U.S. dollar compared to both the third quarter of 2017 and the second quarter of 2018, which negatively impacted the results of our mortgage insurance business in Australia as reported in U.S. dollars. Any future movement in foreign exchange rates could impact future results.

The Australian GDP is expected to have experienced solid growth in the third quarter of 2018, supported by labor market improvement, expansion of non-mining business investment and growth in both public infrastructure investment and import volumes. The cash rate remained flat at 1.50% in the third quarter of 2018. The September 2018 unemployment rate decreased to 5.0% from 5.4% at the end of the second quarter of 2018.

Home prices in Australia continued to decline in the third quarter of 2018, following consistent growth throughout most of 2017. September 2018 home values were approximately 4% lower than a year ago, with the main driver being the Sydney and Melbourne housing markets with annual home price declines of approximately 6% and 3%, respectively, as of the end of the third quarter of 2018.

Our mortgage insurance business in Australia completed a review of its premium earnings pattern in the fourth quarter of 2017. The review indicated an observed and expected continuation of a longer duration between policy inception and first loss event. This was primarily attributable to the economic downturn in mining regions, which comprised a large proportion of incurred losses in 2017, and a prolonged low interest rate environment resulting in robust housing markets in other parts of the country. The review resulted in a refinement of premium recognition factors and a cumulative adjustment that was applied retrospectively as of October 1, 2017. As a result of these changes, earned premiums and amortization of DAC are expected to increase over the next several years on our existing insurance in-force as compared to 2017, but normalize thereafter as the premiums will be earned over a longer period of time. The application of the new premium earnings pattern only impacts the timing of our premium recognition, as the amount of total earned premiums recognized over the lifetime of the policies is unchanged. As discussed above, the adjustment to our premium earnings pattern was applied on a retrospective basis under U.S. GAAP. However, under local Australian Accounting Standards this adjustment was applied on a prospective basis. Due to this divergence in accounting application, the financial results and certain metrics, such as the loss ratio and expense ratios, for our mortgage insurance business in Australia were materially different between the two accounting standards in 2017 and in the first three quarters of 2018 and will be materially different in future periods. During the fourth quarter of 2018, our mortgage insurance business in Australia is expected to complete its annual review of its premium earnings pattern. Our expected pattern of risk emergence and related premium earnings pattern for our mortgage insurance business in Australia is subject to change given the inherent uncertainty as to the underlying loss development and policy cancellation assumptions and the duration of our mortgage insurance policies in Australia. As previously disclosed, actual experience that is different than expected loss development or policy cancellations has resulted in

material decreases in the recognition of earned premiums, increases in unearned premiums and additional after-tax charges to operating results. The outcome of this review could impact our future results of operations but we will not have an estimate until the work is finalized.

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Our mortgage insurance business in Australia had lower losses in the third quarter of 2018 compared to the third quarter of 2017 primarily due to improved aging of existing delinquencies, partially offset by higher new delinquencies, net of cures, in the current year. The loss ratio in Australia for the three months ended September 30, 2018 was 31%. The 2017 full year loss ratio was (79)%, due primarily to the review of our premium earnings pattern. This adjustment reduced the loss ratio by 112% for the full year 2017. We expect higher earned premiums to drive the full year loss ratio lower in 2018 than it would have been in 2017 without the adjustment from the review of our premium earnings pattern.

In the third quarter of 2018, our mortgage insurance business in Australia experienced a decrease in new insurance written volumes compared to the third quarter of 2017 primarily due to bulk deals completed in the prior year, partially offset by increased flow volumes in the current year attributable to increased activity from certain key customers.

Gross premiums written in the third quarter of 2018 were flat compared to the third quarter of 2017 primarily driven by higher flow new insurance written from increased key customer activity, offset by a decrease in bulk activity in the current year. Earned premiums in the third quarter of 2018 were higher compared to the third quarter of 2017 largely due to updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017 and higher policy cancellations in the current year.

In November 2016, we entered into a new contract with our largest customer, effective January 1, 2017, with a term of three years. In the first three quarters of 2018, this customer represented 48% of our new insurance written, excluding structured insurance transactions where we are in a secondary loss position. The contract with our current second largest customer was extended through November 2018 under similar terms as the previous contract. This customer represented 18% of our new insurance written in the first three quarters of 2018. The contract with our former second largest customer was terminated by the customer effective April 8, 2017.

Our mortgage insurance business in Australia evaluates its capital position in relation to the Prescribed Capital Amount ( PCA ) as determined by the Australian Prudential Regulation Authority ( APRA ), utilizing its Internal Capital Adequacy Assessment Process as the framework to ensure that our Australia group of companies as a whole, and each regulated entity, are independently capitalized to meet regulatory requirements. As of September 30, 2018, the estimated PCA ratio of our mortgage insurance business in Australia was approximately 185%, representing a decrease from 190% as of June 30, 2018, largely resulting from dividends paid and share repurchase activity, partially offset by portfolio seasoning.



**Table of Contents*****Segment results of operations******Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our Australia Mortgage Insurance segment for the periods indicated:

|   | <b>Three months ended September 30,</b> |             | <b>Increase (decrease) and percentage change</b> |             |
|---|---|-------------|--|-------------|
| <b>(Amounts in millions)</b>  | <b>2018</b>                             | <b>2017</b> | <b>2018 vs. 2017</b>                             |             |
| <b>Revenues:</b>  |   |             |  |             |
| Premiums  | \$ 87                                   | \$ 78       | \$ 9   | 12%         |
| Net investment income   | 17                                      | 19          | (2)  | (11)%       |
| Net investment gains (losses)   | 1                                       | 1           |  | %           |
| <b>Total revenues</b>   | <b>105</b>                              | <b>98</b>   | <b>7</b>   | <b>7%</b>   |
| <b>Benefits and expenses:</b>   |   |             |  |             |
| Benefits and other changes in policy reserves   | 27                                      | 29          | (2)  | (7)%        |
| Acquisition and operating expenses, net of deferrals  | 15                                      | 18          | (3)  | (17)%       |
| Amortization of deferred acquisition costs and intangibles  | 10                                      | 10          |  | %           |
| Interest expense  | 3                                       | 3           |  | %           |
| <b>Total benefits and expenses</b>  | <b>55</b>                               | <b>60</b>   | <b>(5)</b>                                       | <b>(8)%</b> |
| Income from continuing operations before income taxes   | 50                                      | 38          | 12   | 32%         |
| Provision for income taxes  | 15                                      | 12          | 3  | 25%         |
| Income from continuing operations   | 35                                      | 26          | 9  | 35%         |
| Less: income from continuing operations attributable to noncontrolling interests                              | 18                                      | 14          | 4  | 29%         |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders                 | 17                                      | 12          | 5  | 42%         |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: |   |             |  |             |
| Net investment (gains) losses, net <sup>(1)</sup>   |   | (1)         | 1  | 100%        |
| Taxes on adjustments  |   | 1           | (1)  | (100)%      |
| Adjusted operating income available to Genworth Financial, Inc. s common stockholders                         | \$ 17                                   | \$ 12       | \$ 5   | 42%         |

- (1) For the three months ended September 30, 2018, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$1 million.

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased primarily driven by updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums in the current year on our existing insurance in-force. The increase was also attributable to lower operating expenses in the current year.

***Revenues***

Premiums increased predominantly from updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums in the current year on our existing insurance in-force. The three months ended September 30, 2018 included a decrease of \$4 million attributable to changes in foreign exchange rates.

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Net investment income decreased largely from changes in foreign exchange rates in the current year.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased largely attributable to improved aging, partially offset by higher new delinquencies, net of cures, in the current year.

Acquisition and operating expenses, net of deferrals, decreased primarily from lower compensation and benefit expenses and from a decrease in professional fees in the current year.

*Provision for income taxes.* The effective tax rate decreased to 30.0% for the three months ended September 30, 2018 from 33.1% for the three months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the change from a worldwide tax system to a territorial system under the TCJA. As a result, we are now generally taxed at our jurisdictional rate of 30%.

**Table of Contents*****Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our Australia Mortgage Insurance segment for the periods indicated:

| <b>(Amounts in millions)</b>  | <b>Nine months ended<br/>September 30,<br/>2018      2017</b> |              | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |                   |
|---|---|--------------|--|-------------------|
| Revenues:   |   |              |  |                   |
| Premiums  | \$ 291  | \$ 237       | \$ 54  | 23%               |
| Net investment income   | 52  | 57           | (5)  | (9)%              |
| Net investment gains (losses)   | 4   | 23           | (19)   | (83)%             |
| Policy fees and other income  | 1   |              | 1  | NM <sup>(1)</sup> |
| <b>Total revenues</b>   | <b>348</b>  | <b>317</b>   | <b>31</b>  | <b>10%</b>        |
| Benefits and expenses:  |   |              |  |                   |
| Benefits and other changes in policy reserves   | 86  | 84           | 2  | 2%                |
| Acquisition and operating expenses, net of deferrals  | 49  | 50           | (1)  | (2)%              |
| Amortization of deferred acquisition costs and intangibles  | 33  | 31           | 2  | 6%                |
| Interest expense  | 7   | 7            |  | %                 |
| <b>Total benefits and expenses</b>  | <b>175</b>  | <b>172</b>   | <b>3</b>   | <b>2%</b>         |
| Income from continuing operations before income taxes   | 173   | 145          | 28   | 19%               |
| Provision for income taxes  | 52  | 48           | 4  | 8%                |
| Income from continuing operations   | 121   | 97           | 24   | 25%               |
| Less: income from continuing operations attributable to noncontrolling interests                              | 62  | 52           | 10   | 19%               |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders                 | 59  | 45           | 14   | 31%               |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: |   |              |  |                   |
| Net investment (gains) losses, net <sup>(2)</sup>   | (2)   | (12)         | 10   | 83%               |
| Taxes on adjustments  | 1   | 4            | (3)  | (75)%             |
| <b>Adjusted operating income available to Genworth Financial, Inc. s common stockholders</b>                  | <b>\$ 58</b>  | <b>\$ 37</b> | <b>\$ 21</b>   | <b>57%</b>        |

- (1) We define NM as not meaningful for increases or decreases greater than 200%.
- (2) For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$2 million and \$11 million, respectively.

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased primarily driven by updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums on our existing insurance in-force in the current year and from higher premiums largely related to higher policy cancellations. The increase was also attributable to lower income taxes in the current year.

**Table of Contents*****Revenues***

Premiums increased largely due to updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher earned premiums in the current year on our existing insurance in-force and from higher policy cancellations resulting from an initiative implemented in the second quarter of 2018 to more promptly identify loans that have been discharged or refinanced using newly available data. The increase was also attributable to a new structured insurance transaction completed in the first quarter of 2018.

Net investment income decreased primarily from lower average invested assets in the current year.

Net investment gains decreased primarily from lower net gains from the sale of investment securities and from changes in the fair value of equity securities, partially offset by derivatives losses and impairments in the prior year that did not recur.

***Benefits and expenses***

Benefits and other changes in policy reserves increased largely attributable to less favorable non-reinsurance recoveries on paid claims in the current year and lower cure activity, partially offset by lower new delinquencies and improved aging of existing delinquencies in the current year.

Amortization of DAC and intangibles increased largely from higher contract fees amortization in the current year.

*Provision for income taxes.* The effective tax rate decreased to 30.0% for the nine months ended September 30, 2018 from 33.5% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to the change from a worldwide tax system to a territorial system under the TCJA. As a result, we are now generally taxed at our jurisdictional rate of 30%.

***Australia Mortgage Insurance selected operating performance measures***

Our mortgage insurance business in Australia currently has structured insurance transactions with two lenders where it is in a secondary loss position. The insurance portfolio metrics associated with these transactions, which include insurance in-force, risk in-force, new insurance written, loans in-force and delinquent loans, are excluded from the following tables. These arrangements represented approximately \$158 million of risk in-force as of September 30, 2018.

The following tables set forth selected operating performance measures regarding our Australia Mortgage Insurance segment as of or for the dates indicated:

| (Amounts in millions)      | As of September 30, |            | Increase<br>(decrease) and<br>percentage<br>change |       |
|----------------------------|---------------------|------------|--|-------|
|                            | 2018                | 2017       | 2018 vs. 2017                                      |       |
| Primary insurance in-force | \$ 222,500          | \$ 252,200 | \$ (29,700)  | (12)% |
| Risk in-force              | \$ 77,500           | \$ 87,700  | \$ (10,200)  | (12)% |

| (Amounts in millions) | Three months ended |                    | Increase (decrease) and percentage change |       | Nine months ended  |                    | Increase (decrease) and percentage change |       |
|-----------------------|--------------------|--------------------|---|-------|--------------------|--------------------|---|-------|
|                       | September 30, 2018 | September 30, 2017 | 2018 vs. 2017                             |       | September 30, 2018 | September 30, 2017 | 2018 vs. 2017                             |       |
| New insurance written | \$ 3,800           | \$ 4,300           | \$ (500)                                  | (12)% | \$ 11,800          | \$ 14,100          | \$ (2,300)                                | (16)% |
| Net premiums written  | \$ 56              | \$ 56              | \$  | %     | \$ 172             | \$ 168             | \$ 4                                      | 2%    |

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### *Primary insurance in-force and risk in-force*

Our mortgage insurance business in Australia currently provides 100% coverage on the majority of the loans we insure in those markets. For the purpose of representing our risk in-force, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our business in Australia. For the three and nine months ended September 30, 2018 and 2017, this factor was 35%. We also have certain risk share arrangements where we provide pro-rata coverage of certain loans rather than 100% coverage. As a result, for loans with these risk share arrangements, the applicable pro-rata coverage amount provided is used when applying the factor.

Primary insurance in-force and risk in-force decreased primarily due to changes in foreign exchange rates, portfolio seasoning and lower production volumes over the past year. Primary insurance in-force and risk in-force included decreases of \$19.1 billion and \$6.7 billion, respectively, from changes in foreign exchange rates.

### *New insurance written*

New insurance written decreased for the three months ended September 30, 2018 primarily due to bulk deals completed in the prior year, partially offset by increased flow volumes mainly attributable to increased mortgage origination activity from certain key customers in the current year. The three months ended September 30, 2018 included a decrease of \$200 million attributable to changes in foreign exchange rates. New insurance written decreased for the nine months ended September 30, 2018 mainly attributable to lower market penetration from a change in customer mix, bulk deals completed in the prior year and continued regulatory changes focused on lending standards, investment lending and serviceability.

### *Net premiums written*

Most of our Australian mortgage insurance policies provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected pattern of risk emergence. As of September 30, 2018, our unearned premium reserves were \$1.1 billion, compared to \$852 million as of September 30, 2017. The increase in unearned premiums was primarily related to a review of our premium earnings pattern in the fourth quarter of 2017, which resulted in higher unearned premiums of \$468 million. The change in unearned premium reserves included a decrease of \$94 million attributable to changes in foreign exchange rates.

Excluding the impact of changes in foreign exchange rates, net premiums written increased slightly for the three months ended September 30, 2018 primarily due to higher mortgage origination volume from certain key customers. Net premiums written increased for the nine months ended September 30, 2018 mainly from a new structured insurance transaction completed in the first quarter of 2018, partially offset by lower market penetration from a change in customer mix.

### *Loss and expense ratios*

The following table sets forth the loss and expense ratios for our Australia Mortgage Insurance segment for the periods indicated:



|                                      | Three months ended |                    |                                   | Nine months ended  |                    |                                   |
|--------------------------------------|--------------------|--------------------|-----------------------------------|--------------------|--------------------|-----------------------------------|
|                                      | September 30, 2018 | September 30, 2017 | Increase (decrease) 2018 vs. 2017 | September 30, 2018 | September 30, 2017 | Increase (decrease) 2018 vs. 2017 |
| Loss ratio                           | 31%                | 37%                | (6)%                              | 30%                | 35%                | (5)%                              |
| Expense ratio (net earned premiums)  | 29%                | 37%                | (8)%                              | 28%                | 35%                | (7)%                              |
| Expense ratio (net premiums written) | 46%                | 51%                | (5)%                              | 48%                | 49%                | (1)%                              |

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The loss ratio is the ratio of benefits and other changes in policy reserves to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our mortgage insurance business in Australia, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of DAC and intangibles.

The loss ratio decreased for the three months ended September 30, 2018 primarily from higher earned premiums from updated premium recognition factors from the review of our premium earnings pattern in the fourth quarter of 2017 and from lower losses largely attributable to improved aging, partially offset by higher new delinquencies, net of cures, in the current year. The loss ratio decreased for the nine months ended September 30, 2018 primarily from higher earned premiums from updated premium recognition factors and higher policy cancellations, partially offset by higher losses in the current year. The increase in losses was largely attributable to less favorable non-reinsurance recoveries on paid claims in the current year and lower cure activity, partially offset by lower new delinquencies and favorable aging of existing delinquencies in the current year.

The expense ratio (net earned premiums) decreased for the three months ended September 30, 2018 primarily from higher net earned premiums as discussed above and from lower compensation and benefit expenses and a decrease in professional fees in the current year. The expense ratio (net earned premiums) decreased for the nine months ended September 30, 2018 primarily from higher net earned premiums, partially offset by higher contract fees amortization in the current year.

The expense ratio (net premiums written) decreased for the three months ended September 30, 2018 primarily from lower compensation and benefits expense and from a decrease in professional fees in the current year. The expense ratio (net premiums written) decreased for the nine months ended September 30, 2018 mainly from higher net premiums written in the current year.

*Delinquent loans*

The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our Australia mortgage insurance portfolio as of the dates indicated:

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>September 30,<br/>2017</b> |
|--|-------------------------------|------------------------------|-------------------------------|
| Primary insured loans in-force                         | 1,335,133                     | 1,416,525                    | 1,422,501                     |
| Delinquent loans                                       | 7,350                         | 6,696                        | 7,146                         |
| Percentage of delinquent loans (delinquency rate)      | 0.55%                         | 0.47%                        | 0.50%                         |
| Flow loans in-force                                    | 1,229,558                     | 1,303,928                    | 1,308,998                     |
| Flow delinquent loans                                  | 7,133                         | 6,476                        | 6,912                         |
| Percentage of flow delinquent loans (delinquency rate) | 0.58%                         | 0.50%                        | 0.53%                         |
| Bulk loans in-force                                    | 105,575                       | 112,597                      | 113,503                       |
| Bulk delinquent loans                                  | 217                           | 220                          | 234                           |
| Percentage of bulk delinquent loans (delinquency rate) | 0.21%                         | 0.20%                        | 0.21%                         |

Flow loans in-force decreased primarily from policy cancellations. Flow delinquent loans increased primarily from lower cures in the current year.



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Primary insurance delinquency rates differ by the various states and territories of Australia at any one time depending upon economic conditions and cyclical growth patterns. The table below sets forth our primary delinquency rates for the states and territories of Australia by our risk in-force as of the dates indicated. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

|                              | Percent<br>of primary<br>risk<br>in-force<br>as of<br>September 30,<br>2018 | Delinquency rate      |                      |                       |
|------------------------------|---|-----------------------|----------------------|-----------------------|
|                              |   | September 30,<br>2018 | December 31,<br>2017 | September 30,<br>2017 |
| By state and territory:      |   |                       |                      |                       |
| New South Wales              | 28%   | 0.38%                 | 0.31%                | 0.31%                 |
| Queensland                   | 23  | 0.73%                 | 0.67%                | 0.72%                 |
| Victoria                     | 23  | 0.42%                 | 0.37%                | 0.39%                 |
| Western Australia            | 12  | 1.01%                 | 0.83%                | 0.88%                 |
| South Australia              | 6   | 0.70%                 | 0.60%                | 0.65%                 |
| Australian Capital Territory | 3   | 0.15%                 | 0.14%                | 0.19%                 |
| Tasmania                     | 2   | 0.35%                 | 0.32%                | 0.38%                 |
| New Zealand                  | 2   | 0.05%                 | 0.04%                | 0.06%                 |
| Northern Territory           | 1   | 0.70%                 | 0.48%                | 0.50%                 |
| Total                        | 100%  | 0.55%                 | 0.47%                | 0.50%                 |

Delinquency rates increased in the current year compared to December 31, 2017 and September 30, 2017 mainly from decreased flow loans in-force as a result of higher policy cancellations and lower cure rates in the current year.

**U.S. Life Insurance segment*****Trends and conditions***

Results of our U.S. life insurance businesses depend significantly upon the extent to which our actual future experience is consistent with assumptions and methodologies we have used in calculating our reserves. Many factors can affect the reserves in our U.S. life insurance businesses. Because these factors are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. We will continue to monitor our experience and assumptions closely and make changes to our assumptions and methodologies, as appropriate, for our U.S. life insurance products. Even small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our DAC amortization, reserve levels, results of operations and financial condition.

We perform loss recognition testing to ensure that the current reserves along with the present value of future gross premiums are sufficient to cover the present value of future expected claims and expense, as well as recover the unamortized portion of DAC and, if any, PVFP. If the loss recognition test indicates a deficiency in the ability to pay all future claims and expenses, including the amortization of DAC and PVFP, a loss is recognized in earnings as an

impairment of the DAC and/or PVFP balance and, if the loss is greater than the DAC and/or PVFP balance, by an increase in reserves. Our liability for policy and contract claims is reviewed quarterly and we conduct a review of our claim reserve assumptions for our long-term care insurance business annually typically during the third quarter of each year. We plan to complete our annual review of claim reserve assumptions for our long-term care insurance business in the fourth quarter of 2018. See Long-term care insurance below for more details. Our liability for future policy benefits is reviewed at least annually as a part of our loss recognition testing typically performed in the third or fourth quarter of each year. As part of loss recognition testing, we also review the recoverability of DAC and PVFP at least annually. In addition, we perform cash flow testing separately for each of our U.S. life insurance companies on a statutory accounting

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basis annually. In the fourth quarter of 2018, we will also perform assumption reviews for our universal and term universal life insurance products as well as for our other U.S. life insurance products, including our long-term care insurance products, and complete our loss recognition testing. For our acquired block of long-term care insurance business and our fixed immediate annuity products, we monitor these blocks more frequently than annually given the premium deficiencies that existed in previous periods. In addition, given the low margin of our term and whole life insurance products, excluding our acquired block, as of December 31, 2017, we monitor this block more frequently than annually.

Our U.S. Life Insurance segment will continue to migrate to a new valuation and projection platform for certain lines of business, while we upgrade platforms for other lines of business. The migration and upgrades are part of our ongoing efforts to improve the infrastructure and capabilities of our information systems and our routine assessment and refinement of financial, actuarial, investment and risk management capabilities and processes enterprise wide. These efforts will also provide our U.S. Life Insurance segment with improved platforms to support emerging accounting guidance and ongoing changes in capital regulations. Concurrently, actuarial processes and methodologies will be reviewed, and may result in additional refinements to our models and/or assumptions. Any material changes in balances, margins or income trends that may result from these activities will be disclosed accordingly. We intend to continue developing our modeling capabilities in our various businesses, including for our long-term care insurance projections where we migrated substantially all of our retained long-term care insurance business to this new modeling system in 2016 and 2017. The new modeling system values and forecasts associated liability cash flows and policyholder behavior at a more granular level than our previous system.

Results of our U.S. life insurance businesses are also impacted by interest rates. The continued low interest rate environment puts pressure on the profitability and returns of these businesses as higher yielding investments have matured and been replaced with lower-yielding investments. We seek to manage the impact of low interest rates through asset-liability management as well as interest rate hedging strategies for a portion of our long-term care insurance product cash flows. Additionally, certain products have implicit and explicit rate guarantees or optionality that are significantly impacted by changes in interest rates. For a further discussion of the impact of interest rates on our U.S. life insurance businesses, see Item 7A Quantitative and Qualitative Disclosures About Market Risk in our 2017 Annual Report on Form 10-K.

As previously disclosed, the TCJA effective in December 2017 had an immediate impact on the capital of our life insurance subsidiaries through a reduction in the statutory admitted deferred tax assets and an impact to certain cash flow scenario testing included in the risk-based capital ( RBC ) calculation of those subsidiaries in 2017. On June 28, 2018, the National Association of Insurance Commissioners ( NAIC ) Capital Adequacy Task Force adopted proposed changes to the RBC calculation effective for the year ending December 31, 2018 as a result of tax reform which will negatively impact the RBC ratio for our life insurance subsidiaries. Any future revisions to the factors used for calculating the RBC ratio of insurance companies could increase the RBC amount and result in a further reduction in our life insurance subsidiaries RBC ratios. Additionally, any future increases in our statutory reserves, including as a result of Actuarial Guideline 38 or cash flow testing results, could decrease the RBC ratio of our life insurance subsidiaries. Further declines in the RBC ratio of our life insurance subsidiaries could adversely affect their financial strength ratings.

*Long-term care insurance*

Results of our long-term care insurance business are influenced primarily by our ability to achieve in-force rate actions, morbidity, mortality, persistency, investment yields, expenses, sales, changes in regulations and reinsurance. Sales of our products are impacted by the relative competitiveness of our ratings, product features, pricing and commission levels and the impact of in-force rate actions on distribution and consumer demand. Changes in

regulations or government programs, including long-term care insurance rate action legislation, could impact our long-term care insurance business either positively or negatively.

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We regularly review our methodologies and assumptions in light of emerging experience and may be required to make adjustments to our long-term care insurance claim reserves in the future. Our liability for policy and contract claims is reviewed quarterly and we conduct a detailed review of our claim reserve assumptions for our long-term care insurance business annually typically during the third quarter of each year. We plan to complete our annual review of claim reserve assumptions and our analysis of potential changes to methodologies for our long-term care insurance business in the fourth quarter of 2018.

Recently we have seen policyholders with unlimited benefits on claim utilizing a higher percentage of their available benefits than we assumed in our claim reserves. This developing trend, among others, may impact our claim reserves. However, the work on this assumption, as well as other assumptions, and potential methodology changes are not yet complete, and we plan to finish this work in the fourth quarter of 2018. Accordingly, we will not have an estimate of any impact on the claim reserves until the work is finalized. Changes in assumptions or methodologies, if adopted, would likely have a material impact on our results of operations.

In addition, changes in assumptions or methodologies in our long-term care insurance claim reserves in the future could also impact our loss recognition and cash flow testing results. Our assumptions are sensitive to slight variability in actual experience and small changes in assumptions could result in decreases in the margin of our long-term care insurance blocks to at/or below zero in future years. To the extent, based on reviews, the margin of our long-term care insurance block, excluding the acquired block, is negative, we would be required to recognize a loss, by amortizing more DAC and/or establishing additional benefit reserves. For our acquired block of long-term care insurance, the impacts of adverse changes in assumptions would also be reflected as a loss if our margin for this block is reduced below zero by establishing additional benefit reserves. A significant decrease in our loss recognition testing margin of our long-term care insurance blocks could have a material adverse effect on our business, results of operations and financial condition.

In connection with the updated assumptions and methodologies that increased claim reserves on existing claims in our 2016 review, we now establish higher claim reserves on new claims, which decreased earnings in 2017 and 2018 and we expect will decrease earnings going forward as higher reserves are recorded. Additionally, average claim reserves for new claims are higher as the mix of claims continues to evolve, with an increasing number of policies with higher daily benefit amounts and higher inflation factors going on claim. Also, we expect growth in new claims as our blocks of business continue to age. In addition, premiums will be negatively impacted as policies terminate from mortality and lapses.

We experience volatility in our loss ratios caused by variances in policy terminations, claim terminations, claim severity and claim counts. Our approved in-force rate actions may also cause fluctuations in our loss ratios during the period when reserves are adjusted to reflect policyholders taking reduced benefits or non-forfeiture options within their policy coverage. In addition, we periodically review our reserve assumptions and methodologies based upon developing experience, which may result in changes to claim reserves and loss recognition testing results, causing volatility in our operating results and loss ratios. Our loss ratio for the nine months ended September 30, 2018 and 2017 was 81% and 74%, respectively.

As a result of ongoing challenges in our long-term care insurance business, we continue pursuing initiatives to improve the risk and profitability profile of our business including: premium rate increases and associated benefit reductions on our in-force policies; product refinements; changes to our current product offerings in certain states; new distribution strategies; refining underwriting requirements; managing expense levels; actively exploring additional reinsurance strategies; executing investment strategies targeting higher returns; enhancing our financial and actuarial analytical capabilities; and considering other actions to improve the performance of the overall business. These efforts include a plan for significant future in-force premium rate increases. For an update on rate actions, refer



to Significant Developments U.S. Life Insurance. As of September 30, 2018, we have suspended sales in Hawaii, Massachusetts, New Hampshire, Vermont and Montana, and will consider taking similar actions in the future in other states where we are unable to obtain satisfactory rate increases on in-force policies and/or unable to obtain approval for new products. We will also consider litigation against states

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that decline actuarially justified rate increases. As of September 30, 2018, we were in litigation with one state that has refused to approve actuarially justified in-force rate actions. The approval process for in-force premium rate increases and the amount and timing of the rate increases approved vary by state. In certain states, the decision to approve or disapprove a rate increase can take a significant amount of time, and the approved amount may be phased in over time. After approval, insureds are provided with written notice of the increase and increases are generally applied on the insured's next policy anniversary date. As a result, the benefits of any rate increase are not fully realized until the implementation cycle is complete and are, therefore, expected to be realized over time.

The TCJA signed into law on December 22, 2017 reduced the U.S. corporate federal income tax rate to 21% effective for taxable years beginning on January 1, 2018. Therefore, beginning on January 1, 2018, our U.S. Life Insurance segment is taxed at the new enacted tax rate of 21%. However, gains on forward starting swaps settled prior to the enactment of the TCJA will continue to be tax effected at 35% as they are amortized into net investment income. This will negatively impact our long-term care insurance business given the majority of our forward starting swaps are in this business.

We also manage risk and capital allocated to our long-term care insurance business through utilization of external reinsurance in the form of coinsurance. We executed external reinsurance agreements to reinsure 20% of all sales of our individual long-term care insurance products that have been introduced since early 2013. External new business reinsurance is dependent on a number of factors, including price, availability, risk tolerance and capital levels. Over time, there can be no assurance that affordable, or any, reinsurance will continue to be available. We also have external reinsurance on some older blocks of business which includes a treaty on a yearly renewable term basis on business that was written between 1998 and 2003. This yearly renewable term reinsurance provides coverage for claims on those policies for 15 years after the policy was written. After 15 years, reinsurance coverage ends for policies not on claim, while reinsurance coverage continues for policies on claim until the claim ends. The 15-year coverage on the policies written in 2003 expired in 2018; therefore, any new claims will not have reinsurance coverage under this treaty. Since 2013, we have seen, and may continue to see, an increase in our benefit costs as policies with reinsurance coverage exhaust their benefits or terminate and policies which are not covered by reinsurance go on claim.

Sales of our long-term care insurance business remain low due to our current ratings. Additionally, effective April 1, 2018, we suspended sales of our long-term care insurance products in Florida.

Despite our low sales levels in our long-term care insurance business and our current ratings, we continue to evaluate new products. For example, we previously launched an enhanced product to improve competitiveness, while meeting our targeted returns, by, among other things, reducing premium rates, benefit levels and adjusting other coverage options. In support of this product, we are investing in targeted distribution and marketing initiatives to increase long-term care insurance sales. In addition, we are evaluating market trends and sales and investing in the development of products and distribution strategies that we believe will help expand the long-term care insurance market over time and meet broader consumer needs.

*Life insurance*

Results of our life insurance business are impacted primarily by mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements, among other factors. Effective March 7, 2016, we suspended sales of our traditional life insurance products.

We review our life insurance assumptions in detail at least annually typically in the third or fourth quarter of each year. We regularly review our mortality assumptions as well as all of our other assumptions, including investment

yields, in light of emerging experience and may be required to make adjustments to our universal and term universal life insurance reserves in the future, which could also impact our loss recognition testing results. We plan to perform our annual review of life insurance assumptions in the fourth quarter of 2018. Although mortality levels may deviate each period from historical experience, we continue to experience higher mortality

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in our universal and term universal life insurance products than our current assumptions used for loss recognition testing. The work on this assumption, as well as other assumptions, including investment yields incorporating impacts from interest rate markets on book yields, is not yet complete, and we plan to finish this work in the fourth quarter of 2018. We expect adverse changes to our assumptions, including mortality and investment yields. These expected adverse assumption changes may have a materially negative impact on our results of operations. However, we will not have an estimate of any impact on our life insurance reserves until the work is finalized.

Between 1999 and 2009, we had a significant increase in term life insurance sales, as compared to 1998 and prior years. As our 15-year term life insurance policies written in 1999 and 2000 have transitioned to their post guaranteed level premium rate period, we have experienced lower persistency compared to our pricing and valuation assumptions. The blocks of business issued since 2000 vary in size as compared to the 1999 and 2000 blocks of business. Accordingly, in the future, as additional 10-, 15- and 20-year level premium period blocks enter their post guaranteed level premium rate period, we may experience volatility in DAC amortization, premiums and mortality experience, which may reduce profitability or create losses in our term life insurance products, in amounts that could be material, if persistency continues to be lower than our original assumptions as it has been on our 10- and 15-year business written in 1999 and 2000. In 2017 and for the nine months ended September 30, 2018, we experienced higher lapses and accelerated DAC amortization associated with our large 15-year and 20-year term life insurance blocks entering their post guaranteed level premium rate periods. We anticipate this trend will continue with accompanying higher DAC amortization and lower profitability as larger blocks reach the end of their level premium periods through 2020, especially for our 2000 block, and will continue as our other blocks reach their post guaranteed level premium rate period. As of September 30, 2018, our term life insurance products had a DAC balance of \$1.3 billion. We have also taken actions to mitigate potentially unfavorable impacts through the use of reinsurance, particularly for certain term life insurance policies issued between 2001 and 2004.

*Fixed annuities*

Results of our fixed annuities business are affected primarily by investment performance, interest rate levels, the slope of the interest rate yield curve, net interest spreads, equity market conditions, mortality, persistency, and expense and commission levels. Effective March 7, 2016, we suspended sales of our traditional fixed annuity products.

We monitor and change crediting rates on fixed annuities on a regular basis to maintain spreads and targeted returns, if applicable. However, if interest rates remain at current levels or decrease, we could see declines in spreads which impact the margins on our products, particularly our fixed immediate annuity products. Due to the premium deficiency that existed in 2016 and the current low interest rate environment, we continue to monitor our fixed immediate annuity products more frequently than annually and recorded additional charges during 2017. However, for the nine months ended September 30, 2018, we have not recorded any additional charges. If interest rates remain at the current levels or increase at a slower pace than we assumed, we could incur additional charges in the future. The impacts of future adverse changes in our assumptions would result in the establishment of additional future policy benefit reserves and would be immediately reflected as a loss if our margin for this block is again reduced below zero. Any favorable variation would result in additional margin but no immediate benefit to income and would result in higher income recognition over the remaining duration of the in-force block.

For fixed indexed annuities, equity market performance and volatility could also result in additional gains or losses, although associated hedging activities are expected to partially mitigate these impacts.

**Table of Contents****Segment results of operations****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The following table sets forth the results of operations relating to our U.S. Life Insurance segment for the periods indicated:

| <b>(Amounts in millions)</b>   | <b>Three months ended<br/>September 30,</b> |               | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |               |
|--|---|---------------|--|---------------|
|  | <b>2018</b>                                 | <b>2017</b>   |  |               |
| <b>Revenues:</b>   |   |               |  |               |
| Premiums   | \$ 717                                      | \$ 748        | \$ (31)  | (4)%          |
| Net investment income  | 696   | 683           | 13   | 2%            |
| Net investment gains (losses)  | (7)   | 27            | (34)   | (126)%        |
| Policy fees and other income   | 155   | 154           | 1  | 1%            |
| <b>Total revenues</b>  | <b>1,561</b>                                | <b>1,612</b>  | <b>(51)</b>  | <b>(3)%</b>   |
| <b>Benefits and expenses:</b>  |   |               |  |               |
| Benefits and other changes in policy reserves                          | 1,248                                       | 1,255         | (7)  | (1)%          |
| Interest credited  | 113   | 128           | (15)   | (12)%         |
| Acquisition and operating expenses, net of deferrals                   | 144   | 149           | (5)  | (3)%          |
| Amortization of deferred acquisition costs and intangibles             | 53  | 50            | 3  | 6%            |
| Interest expense   | 4   | 3             | 1  | 33%           |
| <b>Total benefits and expenses</b>                                     | <b>1,562</b>                                | <b>1,585</b>  | <b>(23)</b>  | <b>(1)%</b>   |
| <b>Income (loss) from continuing operations before income taxes</b>    | <b>(1)</b>                                  | <b>27</b>     | <b>(28)</b>  | <b>(104)%</b> |
| <b>Provision for income taxes</b>                                      | <b>6</b>                                    | <b>10</b>     | <b>(4)</b>   | <b>(40)%</b>  |
| <b>Income (loss) from continuing operations</b>                        | <b>(7)</b>                                  | <b>17</b>     | <b>(24)</b>  | <b>(141)%</b> |
| <b>Adjustments to income (loss) from continuing operations:</b>        |   |               |  |               |
| Net investment (gains) losses, net <sup>(1)</sup>                      | 6   | (28)          | 34   | 121%          |
| Taxes on adjustments   | (2)   | 10            | (12)   | (120)%        |
| <b>Adjusted operating loss available to Genworth Financial, Inc. s</b> |   |               |  |               |
| <b>common stockholders</b>   | <b>\$ (3)</b>                               | <b>\$ (1)</b> | <b>\$ (2)</b>  | <b>(200)%</b> |

- (1) For the three months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(1) million.

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The following table sets forth adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders for the businesses included in our U.S. Life Insurance segment for the periods indicated:

| (Amounts in millions)   | Three months ended September 30, |        | Increase (decrease) and percentage change |                   |
|---|----------------------------------|--------|---|-------------------|
|   | 2018                             | 2017   | 2018 vs. 2017                             |                   |
| Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders: |                                  |        |   |                   |
| Long-term care insurance  | \$ (24)                          | \$ (5) | \$ (19)                                   | NM <sup>(1)</sup> |
| Life insurance  | (2)                              | (9)    | 7   | 78%               |
| Fixed annuities   | 23                               | 13     | 10  | 77%               |
| Total adjusted operating loss available to Genworth Financial, Inc.'s common stockholders     | \$ (3)                           | \$ (1) | \$ (2)                                    | (200)%            |

<sup>(1)</sup> We define NM as not meaningful for increases or decreases greater than 200%.

***Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders***

The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders for our long-term care insurance business increased \$19 million mainly attributable to lower terminations and higher severity and frequency of new claims, partially offset by higher premiums and reduced benefits in the current year from in-force rate actions approved and implemented.

The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders for our life insurance business decreased \$7 million primarily from a \$15 million net unfavorable model refinement in the prior year that did not recur, higher investment income and lower interest credited, partially offset by higher ceded reinsurance in the current year.

Our fixed annuities business increased \$10 million predominantly attributable to higher reserves of \$6 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur. The increase was also attributable to favorable mortality, lower taxes and interest credited, partially offset by a decrease in investment income in the current year.

***Revenues***

***Premiums***

Our long-term care insurance business increased \$7 million largely from \$19 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations in the current year.

Our life insurance business decreased \$38 million mainly attributable to higher ceded premiums in the current year from new reinsurance treaties effective in December 2017 and the continued runoff of our term life insurance products in the current year.

*Net investment income*

Our long-term care insurance business increased \$28 million largely from higher average invested assets in the current year.

Our life insurance business increased \$4 million principally related to higher average invested assets in the current year.



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Our fixed annuities business decreased \$19 million largely attributable to lower average invested assets in the current year.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business decreased \$19 million primarily related to lower net gains from the sale of investment securities in the current year.

Our life insurance business had net investment losses of \$4 million in the current year compared to net investment gains of \$7 million in the prior year. The change to net investment losses in the current year was mainly driven by losses from the sale of investment securities compared to gains in the prior year.

Net investment losses in our fixed annuities business increased \$4 million primarily related to higher losses on embedded derivatives associated with our fixed indexed annuity products, partially offset by higher derivative gains in the current year.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased \$48 million mainly from higher reserves as a result of the aging of the in-force block, lower claim and policy terminations and higher severity and frequency of new claims in the current year. These increases were partially offset by higher reduced benefits of \$12 million in the current year related to in-force rate actions approved and implemented.

Our life insurance business decreased \$41 million primarily attributable to higher ceded benefits in the current year from new reinsurance treaties effective in December 2017. The decrease was also a result of improved mortality in our universal life insurance products, partially offset by unfavorable mortality and less favorable reserve releases in our term life insurance products in the current year. The prior year included a \$30 million unfavorable model refinement that did not recur.

Our fixed annuities business decreased \$14 million largely attributable to higher reserves of \$9 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur. The decrease was also attributable to lower interest credited and favorable mortality in the current year.

*Interest credited*

Our life insurance business decreased \$4 million primarily driven by a decline in average account values in the current year.

Our fixed annuities business decreased \$11 million predominantly from a decline in average account values and lower crediting rates in the current year.

*Acquisition and operating expenses, net of deferrals*

Our life insurance business decreased \$3 million principally related to lower operating expenses as a result of the continued runoff of our in-force block in the current year.

Our fixed annuities business decreased \$3 million largely attributable to lower operating expenses as a result of the continued runoff of our in-force block in the current year.

*Amortization of deferred acquisition costs and intangibles.* The increase in amortization of DAC and intangibles was primarily related to our life insurance business principally as a result of a net \$15 million favorable model refinement in the prior year that did not recur, partially offset by the continued runoff of our term life insurance products in the current year.

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*Provision for income taxes.* The effective tax rate was (265.1)% and 35.3% for the three months ended September 30, 2018 and 2017, respectively. The effective tax rate for the three months ended September 30, 2018 was largely attributable to tax expense of \$6 million in relation to a small pre-tax loss in the current year. The tax expense in the current year mostly related to our long-term care insurance business from gains on forward starting swaps settled prior to the enactment of the TCJA, which will continue to be tax effected at 35% as they are amortized into net investment income. This increase was partially offset by a reduction in the U.S. corporate federal income tax rate from 35% to 21%.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our U.S. Life Insurance segment for the periods indicated:

| <b>(Amounts in millions)</b>   | <b>Nine months ended<br/>September 30,</b> |              | <b>Increase<br/>(decrease) and<br/>percentage<br/>change<br/>2018 vs. 2017</b> |              |
|--|--|--------------|--|--------------|
|  | <b>2018</b>                                | <b>2017</b>  |  |              |
| <b>Revenues:</b>   |  |              |  |              |
| Premiums   | \$ 2,151                                   | \$ 2,242     | \$ (91)  | (4)%         |
| Net investment income  | 2,091                                      | 2,058        | 33   | 2%           |
| Net investment gains (losses)  | (9)  | 91           | (100)  | (110)%       |
| Policy fees and other income   | 487  | 494          | (7)  | (1)%         |
| <b>Total revenues</b>  | <b>4,720</b>                               | <b>4,885</b> | <b>(165)</b>   | <b>(3)%</b>  |
| <b>Benefits and expenses:</b>  |  |              |  |              |
| Benefits and other changes in policy reserves  | 3,649                                      | 3,582        | 67   | 2%           |
| Interest credited  | 348  | 389          | (41)   | (11)%        |
| Acquisition and operating expenses, net of deferrals   | 431  | 450          | (19)   | (4)%         |
| Amortization of deferred acquisition costs and intangibles                                       | 202  | 221          | (19)   | (9)%         |
| Interest expense   | 12   | 9            | 3  | 33%          |
| <b>Total benefits and expenses</b>   | <b>4,642</b>                               | <b>4,651</b> | <b>(9)</b>   | <b>%</b>     |
| <b>Income from continuing operations before income taxes</b>                                     | <b>78</b>                                  | <b>234</b>   | <b>(156)</b>   | <b>(67)%</b> |
| <b>Provision for income taxes</b>  | <b>33</b>                                  | <b>83</b>    | <b>(50)</b>  | <b>(60)%</b> |
| <b>Income from continuing operations</b>   | <b>45</b>                                  | <b>151</b>   | <b>(106)</b>   | <b>(70)%</b> |
| <b>Adjustments to income from continuing operations:</b>   |  |              |  |              |
| Net investment (gains) losses, net <sup>(1)</sup>  | 6  | (93)         | 99   | 106%         |
| Taxes on adjustments   | (2)  | 33           | (35)   | (106)%       |
| <b>Adjusted operating income available to Genworth<br/>Financial, Inc.'s common stockholders</b> | <b>\$ 49</b>                               | <b>\$ 91</b> | <b>\$ (42)</b>   | <b>(46)%</b> |

- (1) For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(3) million and \$(2) million, respectively.

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The following table sets forth adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders for the businesses included in our U.S. Life Insurance segment for the periods indicated:

| (Amounts in millions)   | Nine months ended  |                    | Increase (decrease) and percentage change |        |
|---|--------------------|--------------------|---|--------|
|   | September 30, 2018 | September 30, 2017 | 2018 vs. 2017                             |        |
| Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders: |                    |                    |   |        |
| Long-term care insurance  | \$ (34)            | \$ 42              | \$ (76)                                   | (181)% |
| Life insurance  | 1                  | 6                  | (5)                                       | (83)%  |
| Fixed annuities   | 82                 | 43                 | 39  | 91%    |
| Total adjusted operating income available to Genworth Financial, Inc.'s common stockholders   | \$ 49              | \$ 91              | \$ (42)                                   | (46)%  |

**Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders**

Our long-term care insurance business had an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$34 million in the current year compared to adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$42 million in the prior year. The decrease to a loss in the current year from income in the prior year was predominantly attributable to higher severity and frequency of new claims and higher utilization of available benefits in the current year. These decreases were partially offset by higher premiums in the current year from in-force rate actions approved and implemented and an increase in investment income in the current year.

Our life insurance business decreased \$5 million primarily from higher ceded reinsurance and unfavorable mortality in our universal and term universal life insurance products. These decreases were partially offset by favorable mortality in our term life insurance products and prior year transactions that did not recur: a \$20 million net unfavorable term conversion mortality assumption correction and a net \$15 million unfavorable model refinement.

Our fixed annuities business increased \$39 million mainly attributable to higher reserves of \$20 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur, favorable mortality, and lower interest credited and taxes, partially offset by lower investment income in the current year.

**Revenues****Premiums**

Our long-term care insurance business increased \$13 million largely from \$54 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations in the current year.

Our life insurance business decreased \$104 million mainly attributable to higher ceded premiums in the current year from new reinsurance treaties effective in December 2017 and the continued runoff of our term life insurance products in the current year.

*Net investment income*

Our long-term care insurance business increased \$84 million largely from higher average invested assets in the current year.

Our fixed annuities business decreased \$53 million largely due to lower average invested assets in the current year.

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*Net investment gains (losses)*

Net investment gains in our long-term care insurance business decreased \$57 million primarily related to net losses from the sale of investment securities in the current year compared to net gains in the prior year, partially offset by higher derivative gains in the current year.

Our life insurance business had net investment losses of \$1 million in the current year compared to net investment gains of \$15 million in the prior year. The change to net investment losses in the current year was mainly driven by losses from the sale of investment securities compared to gains in the prior year, partially offset by higher gains on embedded derivatives associated with our indexed universal life insurance products.

Our fixed annuities business had net investment losses of \$21 million in the current year compared to net investment gains of \$6 million in the prior year. The change to net investment losses in the current year was principally from lower derivative gains and net losses from the sale of investment securities compared to gains in the prior year. These decreases were partially offset by lower losses on embedded derivatives associated with our fixed indexed annuity products.

*Policy fees and other income.* Policy fees and other income decreased mostly attributable to our life insurance business primarily driven by a decline in our term universal and universal life insurance in-force blocks in the current year, partially offset by an \$8 million unfavorable model refinement in the prior year that did not recur.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased \$194 million principally from higher reserves as a result of the aging of the in-force block, higher severity and frequency of new claims, higher utilization of available benefits and a less favorable impact of \$8 million from reduced benefits in the current year related to in-force rate actions approved and implemented.

Our life insurance business decreased \$78 million primarily attributable to higher ceded benefits in the current year from new reinsurance treaties effective in December 2017. The decrease was also the result of favorable mortality in our term life insurance products, partially offset by unfavorable mortality in our universal and term universal life insurance products and less favorable reserve releases in our term life insurance products in the current year. The prior year included a \$30 million unfavorable model refinement that did not recur.

Our fixed annuities business decreased \$49 million largely attributable to higher reserves of \$31 million related to loss recognition testing in our fixed immediate annuity products in the prior year that did not recur and from favorable mortality in the current year.

*Interest credited*

Our life insurance business decreased \$8 million primarily driven by a decline in average account values in the current year.

Our fixed annuities business decreased \$33 million predominantly from a decline in average account values and lower crediting rates in the current year.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business decreased \$14 million mostly driven by \$21 million of guaranty fund assessments in connection with the Penn Treaty liquidation in the prior year that did not recur, partially offset by higher premium taxes in the current year.



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Our fixed annuities business decreased \$4 million largely attributable to lower operating expenses as a result of the continued runoff of our in-force block in the current year.

*Amortization of deferred acquisition costs and intangibles.* Amortization of DAC and intangibles decreased mainly due to our life insurance business largely related to a \$41 million unfavorable term conversion mortality assumption correction in the prior year that did not recur and lower lapses in the current year. These decreases were partially offset by prior year transactions that did not recur: a net \$15 million favorable model refinement and an \$11 million refinement related to reinsurance rates.

*Provision for income taxes.* The effective tax rate was 41.7% and 35.3% for the nine months ended September 30, 2018 and 2017, respectively. The increase in the effective tax rate was primarily attributable to tax expense of \$16 million in our long-term care insurance business related to gains on forward starting swaps settled prior to the enactment of the TCJA, which will continue to be tax effected at 35% as they are amortized into net investment income, partially offset by the reduction in the U.S. corporate federal income tax rate from 35% to 21%.

***U.S. Life Insurance selected operating performance measures******Long-term care insurance***

The following table sets forth selected operating performance measures regarding our long-term care insurance business as of or for the dates indicated:

| (Amounts in millions)               | Three months ended |                    | Increase (decrease) and percentage change |          | Nine months ended  |                    | Increase (decrease) and percentage change |          |
|-------------------------------------|--------------------|--------------------|---|----------|--------------------|--------------------|---|----------|
|                                     | September 30, 2018 | September 30, 2017 | 2018                                      | vs. 2017 | September 30, 2018 | September 30, 2017 | 2018                                      | vs. 2017 |
| Net earned premiums:                |                    |                    |   |          |                    |                    |   |          |
| Individual long-term care insurance | \$ 618             | \$ 613             | \$ 5                                      | 1%       | \$ 1,825           | \$ 1,815           | \$ 10                                     | 1%       |
| Group long-term care insurance      | 30                 | 28                 | 2   | 7%       | 86                 | 83                 | 3   | 4%       |
| Total                               | \$ 648             | \$ 641             | \$ 7                                      | 1%       | \$ 1,911           | \$ 1,898           | \$ 13                                     | 1%       |
| Loss ratio                          | 83%                | 79%                | 4%  |          | 81%                | 74%                | 7%  |          |

The loss ratio is the ratio of benefits and other changes in reserves less tabular interest on reserves less loss adjustment expenses to net earned premiums.

Net earned premiums increased for the three and nine months ended September 30, 2018 largely from \$19 million and \$54 million, respectively, of increased premiums from in-force rate actions approved and implemented, partially offset by policy terminations in the current year.

The loss ratio increased for the three and nine months ended September 30, 2018 largely related to the increase in benefits and other changes in reserves, partially offset by higher premiums as discussed above.

**Table of Contents****Life insurance**

The following tables set forth selected operating performance measures regarding our life insurance business as of or for the dates indicated:

| (Amounts in millions)                | Three months ended |        | Increase (decrease) and percentage change |          | Nine months ended  |        | Increase (decrease) and percentage change |          |
|--------------------------------------|--------------------|--------|---|----------|--------------------|--------|---|----------|
|                                      | September 30, 2018 | 2017   | 2018                                      | vs. 2017 | September 30, 2018 | 2017   | 2018                                      | vs. 2017 |
| <b>Term and whole life insurance</b> |                    |        |   |          |                    |        |   |          |
| Net earned premiums                  | \$ 69              | \$ 107 | \$ (38)                                   | (36)%    | \$ 240             | \$ 344 | \$ (104)                                  | (30)%    |
| <b>Term universal life insurance</b> |                    |        |   |          |                    |        |   |          |
| Net deposits                         | 57                 | 59     | (2)                                       | (3)%     | 179                | 184    | (5)                                       | (3)%     |
| <b>Universal life insurance</b>      |                    |        |   |          |                    |        |   |          |
| Net deposits                         | 128                | 81     | 47  | 58%      | 386                | 250    | 136                                       | 54%      |
| <b>Total life insurance</b>          |                    |        |   |          |                    |        |   |          |
| Net earned premiums and deposits     | \$ 254             | \$ 247 | \$ 7                                      | 3%       | \$ 805             | \$ 778 | \$ 27                                     | 3%       |

| (Amounts in millions)                       | As of September 30, |            | Percentage change |
|---|---------------------|------------|-------------------|
|   | 2018                | 2017       | 2018 vs. 2017     |
| <b>Term and whole life insurance</b>        |                     |            |                   |
| Life insurance in-force, net of reinsurance | \$ 99,076           | \$ 196,872 | (50)%             |
| Life insurance in-force before reinsurance  | \$ 441,013          | \$ 467,821 | (6)%              |
| <b>Term universal life insurance</b>        |                     |            |                   |
| Life insurance in-force, net of reinsurance | \$ 116,328          | \$ 119,442 | (3)%              |
| Life insurance in-force before reinsurance  | \$ 117,136          | \$ 120,291 | (3)%              |
| <b>Universal life insurance</b>             |                     |            |                   |
| Life insurance in-force, net of reinsurance | \$ 35,683           | \$ 37,335  | (4)%              |
| Life insurance in-force before reinsurance  | \$ 40,686           | \$ 42,726  | (5)%              |
| <b>Total life insurance</b>                 |                     |            |                   |
| Life insurance in-force, net of reinsurance | \$ 251,087          | \$ 353,649 | (29)%             |
| Life insurance in-force before reinsurance  | \$ 598,835          | \$ 630,838 | (5)%              |

We no longer solicit sales of our traditional life insurance products; however, we continue to service our existing blocks of business.

**Term and whole life insurance**

Net earned premiums and life insurance in-force, net of reinsurance, decreased mainly attributable to higher ceded premiums in the current year from new reinsurance treaties that were effective in December 2017 and from the continued runoff of our term life insurance products in the current year.

*Universal life insurance*

Net deposits increased during the three and nine months ended September 30, 2018 primarily attributable to \$50 million and \$150 million, respectively, of new funding agreements for asset-liability management and yield enhancement purposes. These increases were partially offset by the continued runoff of our universal life insurance products in the current year.

**Table of Contents*****Fixed annuities***

The following table sets forth selected operating performance measures regarding our fixed annuities business as of or for the dates indicated:

| (Amounts in millions)  | As of or for the<br>three<br>months ended<br>September 30, |           | As of or for the nine<br>months ended<br>September 30, |           |
|--|--|-----------|--|-----------|
|  | 2018   | 2017      | 2018   | 2017      |
| Account value, beginning of period                             | \$ 15,372  | \$ 17,128 | \$ 16,401  | \$ 17,720 |
| Premiums and deposits  | 25   | 27        | 69   | 71        |
| Surrenders, benefits and product charges                       | (632)  | (551)     | (1,761)  | (1,556)   |
| Net flows  | (607)  | (524)     | (1,692)  | (1,485)   |
| Interest credited and investment performance                   | 140  | 145       | 374  | 439       |
| Effect of accumulated net unrealized investment gains (losses) | (46)   | 9         | (224)  | 84        |
| Account value, end of period                                   | \$ 14,859  | \$ 16,758 | \$ 14,859  | \$ 16,758 |

We no longer solicit sales of our traditional fixed annuity products; however, we continue to service our existing block of business.

Account value decreased compared to June 30, 2018 and December 31, 2017 principally from surrenders and benefits exceeding interest credited and deposits. The decrease was also attributable to a decline in net unrealized gains driven by an increase in interest rates in the current year.

**Runoff segment*****Trends and conditions***

Results of our Runoff segment are affected primarily by investment performance, interest rate levels, net interest spreads, equity market conditions, mortality, policyholder loan activity, policyholder surrenders and scheduled maturities. In addition, the results of our Runoff segment can significantly impact our operating performance, regulatory capital requirements, distributable earnings and liquidity.

We discontinued sales of our individual and group variable annuities in 2011; however, we continue to service our existing blocks of variable annuity business and accept additional deposits on existing contracts. Equity market volatility has caused fluctuations in the results of our variable annuity products and regulatory capital requirements. In the future, equity and interest rate market performance and volatility could result in additional gains or losses in our variable annuity products although associated hedging activities are expected to partially mitigate these impacts. Volatility in the results of our variable annuity products can result in favorable or unfavorable impacts on earnings and statutory capital. In addition to the use of hedging activities to help mitigate impacts related to equity market volatility and interest rate risks, in the future, we may consider reinsurance opportunities to further mitigate volatility in results and manage capital.

The results of our institutional products are impacted by scheduled maturities of the liabilities, credit and interest income performance on assets, as well as liquidity levels. However, we believe our liquidity planning and our asset-liability management will mitigate this risk. While we do not actively sell institutional products, we may periodically issue funding agreements for asset-liability matching purposes.

Several factors may impact the time period for these products to runoff including the specific policy types, economic conditions and management strategies.

**Table of Contents****Segment results of operations****Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017**

The following table sets forth the results of operations relating to our Runoff segment for the periods indicated:

|   | Three months ended September 30, |       | Increase (decrease) and percentage change |        |
|---|----------------------------------|-------|---|--------|
| (Amounts in millions)   | 2018                             | 2017  | 2018 vs. 2017                             |        |
| Revenues:   |                                  |       |   |        |
| Net investment income   | \$ 44                            | \$ 40 | \$ 4                                      | 10%    |
| Net investment gains (losses)   | (3)                              | 9     | (12)                                      | (133)% |
| Policy fees and other income  | 38                               | 41    | (3)                                       | (7)%   |
| Total revenues  | 79                               | 90    | (11)                                      | (12)%  |
| Benefits and expenses:  |                                  |       |   |        |
| Benefits and other changes in policy reserves   | 7                                | 5     | 2   | 40%    |
| Interest credited   | 38                               | 36    | 2   | 6%     |
| Acquisition and operating expenses, net of deferrals                                  | 14                               | 16    | (2)                                       | (13)%  |
| Amortization of deferred acquisition costs and intangibles                            | 5                                | 7     | (2)                                       | (29)%  |
| Total benefits and expenses   | 64                               | 64    |   | %      |
| Income from continuing operations before income taxes                                 | 15                               | 26    | (11)                                      | (42)%  |
| Provision for income taxes  | 2                                | 8     | (6)                                       | (75)%  |
| Income from continuing operations   | 13                               | 18    | (5)                                       | (28)%  |
| Adjustments to income from continuing operations:                                     |                                  |       |   |        |
| Net investment (gains) losses, net <sup>(1)</sup>                                     | 1                                | (8)   | 9   | 113%   |
| Taxes on adjustments  |                                  | 3     | (3)                                       | (100)% |
| Adjusted operating income available to Genworth Financial, Inc. s common stockholders | \$ 14                            | \$ 13 | \$ 1                                      | 8%     |

<sup>(1)</sup> For the three months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(2) million and \$1 million, respectively.

**Adjusted operating income available to Genworth Financial, Inc.'s common stockholders**

Adjusted operating income available to Genworth Financial, Inc.'s common stockholders increased slightly predominantly from lower taxes in the current year.

***Revenues***

Net investment income increased mainly driven by higher policy loan income in our corporate-owned life insurance products in the current year.

Net investment losses in the current year were primarily from derivative losses, partially offset by gains on embedded derivatives associated with our variable annuity products with guaranteed minimum withdrawal benefits (GMWBs). Net investment gains in the prior year were principally related to gains on embedded derivatives associated with our variable annuity products with GMWBs, partially offset by derivative losses.

Policy fees and other income decreased principally from lower fee income driven mostly by a decline in the average account values in our variable annuity products in the current year.

**Table of Contents*****Benefits and expenses***

Benefits and other changes in policy reserves increased primarily attributable to higher mortality in our corporate-owned life insurance products and an increase in guaranteed minimum death benefits ( GMDB ) reserves in our variable annuity products due to less favorable equity market performance in the current year.

Interest credited increased largely related to higher account values in our corporate-owned life insurance products in the current year.

Acquisition and operating expenses, net of deferrals, decreased mainly from lower commissions in our variable annuity products in the current year.

*Provision for income taxes.* The effective tax rate decreased to 19.0% for the three months ended September 30, 2018 from 30.7% for the three months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to a reduction in the U.S. corporate federal income tax rate from 35% to 21%.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to our Runoff segment for the periods indicated:

|  | <b>Nine months ended September 30,</b> |             | <b>Increase (decrease) and percentage change</b> |        |
|--|--|-------------|--|--------|
| <b>(Amounts in millions)</b>                               | <b>2018</b>                            | <b>2017</b> | <b>2018 vs. 2017</b>                             |        |
| Revenues:  |  |             |  |        |
| Net investment income                                      | \$ 129                                 | \$ 119      | \$ 10  | 8%     |
| Net investment gains (losses)                              | (18)                                   | 24          | (42)   | (175)% |
| Policy fees and other income                               | 116                                    | 123         | (7)  | (6)%   |
| Total revenues   | 227                                    | 266         | (39)   | (15)%  |
| Benefits and expenses:                                     |  |             |  |        |
| Benefits and other changes in policy reserves              | 22                                     | 18          | 4  | 22%    |
| Interest credited  | 111                                    | 105         | 6  | 6%     |
| Acquisition and operating expenses, net of deferrals       | 43                                     | 47          | (4)  | (9)%   |
| Amortization of deferred acquisition costs and intangibles | 20                                     | 20          |  | %      |
| Interest expense   |  | 1           | (1)  | (100)% |
| Total benefits and expenses                                | 196                                    | 191         | 5  | 3%     |
| Income from continuing operations before income taxes      | 31                                     | 75          | (44)   | (59)%  |
| Provision for income taxes                                 | 5                                      | 23          | (18)   | (78)%  |



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|  |       |       |        |        |
|--|-------|-------|--------|--------|
| Income from continuing operations  | 26    | 52    | (26)   | (50)%  |
| Adjustments to income from continuing operations:  |       |       |        |        |
| Net investment (gains) losses, net <sup>(1)</sup>  | 14    | (22)  | 36     | 164%   |
| Taxes on adjustments   | (3)   | 8     | (11)   | (138)% |
| Adjusted operating income available to Genworth Financial,<br>Inc. s common stockholders | \$ 37 | \$ 38 | \$ (1) | (3)%   |

- <sup>(1)</sup> For the nine months ended September 30, 2018 and 2017, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(4) million and \$2 million, respectively.

**Table of Contents*****Adjusted operating income available to Genworth Financial, Inc.'s common stockholders***

Adjusted operating income available to Genworth Financial, Inc.'s common stockholders decreased slightly driven principally by lower fee income, less favorable equity market performance and higher interest credited, mostly offset by lower taxes and higher investment income in the current year.

***Revenues***

Net investment income increased mainly driven by higher policy loan income in our corporate-owned life insurance products in the current year.

Net investment losses in the current year were largely related to derivative losses, partially offset by gains on embedded derivatives associated with our variable annuity products with GMWBs. Net investment gains in the prior year were primarily related to gains on embedded derivatives associated with our variable annuity products with GMWBs, partially offset by derivative losses.

Policy fees and other income decreased principally from lower fee income driven mostly by a decrease in the average account values in our variable annuity products in the current year.

***Benefits and expenses***

Benefits and other changes in policy reserves increased primarily attributable to an increase in GMDB reserves in our variable annuity products due to less favorable equity market performance in the current year.

Interest credited increased largely related to higher account values in our corporate-owned life insurance products in the current year.

Acquisition and operating expenses, net of deferrals, decreased mainly from lower commissions in our variable annuity products in the current year.

*Provision for income taxes.* The effective tax rate decreased to 17.8% for the nine months ended September 30, 2018 from 30.4% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to a reduction in the U.S. corporate federal income tax rate from 35% to 21%.

***Runoff selected operating performance measures******Variable annuity and variable life insurance products***

The following table sets forth selected operating performance measures regarding our variable annuity and variable life insurance products as of or for the dates indicated:

| (Amounts in millions) | As of or for the<br>three months<br>ended<br>September 30, |      | As of or for the<br>nine months<br>ended<br>September 30, |      |
|-----------------------|--|------|---|------|
|                       | 2018   | 2017 | 2018  | 2017 |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Account value, beginning of period           | \$ 5,469 | \$ 5,970 | \$ 5,884 | \$ 6,031 |
| Deposits                                     | 5        | 8        | 17       | 24       |
| Surrenders, benefits and product charges     | (183)    | (194)    | (594)    | (614)    |
| Net flows                                    | (178)    | (186)    | (577)    | (590)    |
| Interest credited and investment performance | 118      | 149      | 102      | 492      |
| Account value, end of period                 | \$ 5,409 | \$ 5,933 | \$ 5,409 | \$ 5,933 |

We no longer solicit sales of our variable annuity or variable life insurance products; however, we continue to service our existing blocks of business and accept additional deposits on existing contracts and policies.

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Account value decreased compared to June 30, 2018 and December 31, 2017 primarily related to surrenders outpacing interest credited and deposits.

***Institutional products***

The following table sets forth selected operating performance measures regarding our institutional products as of or for the dates indicated:

| (Amounts in millions)               | As of or for the<br>three months ended<br>September 30, |        | As of or for the<br>nine months ended<br>September 30, |        |
|-------------------------------------|---|--------|--|--------|
|                                     | 2018  | 2017   | 2018   | 2017   |
| <b>FABNs and Funding Agreements</b> |   |        |  |        |
| Account value, beginning of period  | \$ 180  | \$ 460 | \$ 260   | \$ 560 |
| Deposits                            | 50  |        | 50   |        |
| Surrenders and benefits             | (1)   | (102)  | (83)   | (206)  |
| Net flows                           | 49  | (102)  | (33)   | (206)  |
| Interest credited                   | 1   | 2      | 3  | 6      |
| Account value, end of period        | \$ 230  | \$ 360 | \$ 230   | \$ 360 |

Account value related to our institutional products increased compared to June 30, 2018 mainly due to higher deposits from issuing funding agreements for asset-liability management and yield enhancement purposes. Account value decreased compared to December 31, 2017 principally attributable to scheduled maturities of certain funding agreements, partially offset by higher deposits from issuing funding agreements for asset-liability management and yield enhancement purposes.

**Table of Contents****Corporate and Other Activities*****Results of operations******Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017***

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

|  | <b>Three months ended September 30,</b> |                | <b>Increase (decrease) and percentage change</b> |                          |
|--|---|----------------|--|--------------------------|
| <b>(Amounts in millions)</b>   | <b>2018</b>                             | <b>2017</b>    | <b>2018 vs. 2017</b>                             |                          |
| <b>Revenues:</b>   |   |                |  |                          |
| Premiums   | \$ 1                                    | \$ 3           | \$ (2)   | (67)%                    |
| Net investment income  | 1                                       | 4              | (3)  | (75)%                    |
| Net investment gains (losses)  | (7)                                     | (7)            |  | %                        |
| Policy fees and other income   | (1)                                     | 1              | (2)  | (200)%                   |
| <b>Total revenues</b>  | <b>(6)</b>                              | <b>1</b>       | <b>(7)</b>                                       | <b>NM <sup>(1)</sup></b> |
| <b>Benefits and expenses:</b>  |   |                |  |                          |
| Benefits and other changes in policy reserves  | 1                                       | 2              | (1)  | (50)%                    |
| Acquisition and operating expenses, net of deferrals                                       | 12                                      | 19             | (7)  | (37)%                    |
| Amortization of deferred acquisition costs and intangibles                                 |   | 2              | (2)  | (100)%                   |
| Interest expense   | 61                                      | 63             | (2)  | (3)%                     |
| <b>Total benefits and expenses</b>   | <b>74</b>                               | <b>86</b>      | <b>(12)</b>                                      | <b>(14)%</b>             |
| <b>Loss from continuing operations before income taxes</b>                                 | <b>(80)</b>                             | <b>(85)</b>    | <b>5</b>   | <b>6%</b>                |
| <b>Benefit for income taxes</b>  | <b>(28)</b>                             | <b>(23)</b>    | <b>(5)</b>                                       | <b>(22)%</b>             |
| <b>Loss from continuing operations</b>   | <b>(52)</b>                             | <b>(62)</b>    | <b>10</b>  | <b>16%</b>               |
| <b>Adjustments to loss from continuing operations:</b>                                     |   |                |  |                          |
| Net investment (gains) losses  | 7                                       | 7              |  | %                        |
| Expenses related to restructuring  | 2                                       |                | 2  | NM <sup>(1)</sup>        |
| Taxes on adjustments   | (2)                                     | (3)            | 1  | 33%                      |
| <b>Adjusted operating loss available to Genworth Financial, Inc. s common stockholders</b> | <b>\$ (45)</b>                          | <b>\$ (58)</b> | <b>\$ 13</b>                                     | <b>22%</b>               |

<sup>(1)</sup> We define NM as not meaningful for increases or decreases greater than 200%.

***Adjusted operating loss available to Genworth Financial, Inc. s common stockholders***

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders decreased primarily related to lower operating expenses and higher tax benefits in the current year.

***Revenues***

The decrease in net investment income was mainly from lower average invested assets in the current year.

***Benefits and expenses***

Acquisition and operating expenses, net of deferrals, decreased mainly driven by lower legal and consulting fees and lower net expenses after allocations in the current year.

The effective tax rate increased to 35.8% for the three months ended September 30, 2018 from 28.4% for the three months ended September 30, 2017. The increase in the effective tax rate was primarily attributable to

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changes resulting from the implementation of the TCJA and provision to return adjustments related to the mandatory repatriation rules of the TCJA, partially offset by the U.S. federal tax rate change from 35% to 21%.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

|   | Nine months ended September 30, |          | Increase (decrease) and percentage change |       |
|---|---------------------------------|----------|---|-------|
| (Amounts in millions)   | 2018                            | 2017     | 2018 vs. 2017                             |       |
| Revenues:   |                                 |          |   |       |
| Premiums  | \$ 6                            | \$ 6     | \$  | %     |
| Net investment income   | 6                               | 5        | 1   | 20%   |
| Net investment gains (losses)   | (8)                             | (31)     | 23  | 74%   |
| Policy fees and other income  | (2)                             | (2)      |   | %     |
| Total revenues  | 2                               | (22)     | 24  | 109%  |
| Benefits and expenses:  |                                 |          |   |       |
| Benefits and other changes in policy reserves                                       | 3                               | 3        |   | %     |
| Acquisition and operating expenses, net of deferrals                                | 34                              | 47       | (13)                                      | (28)% |
| Amortization of deferred acquisition costs and intangibles                          | 1                               | 2        | (1)                                       | (50)% |
| Interest expense  | 193                             | 179      | 14  | 8%    |
| Total benefits and expenses   | 231                             | 231      |   | %     |
| Loss from continuing operations before income taxes                                 | (229)                           | (253)    | 24  | 9%    |
| Benefit for income taxes  | (42)                            | (85)     | 43  | 51%   |
| Loss from continuing operations   | (187)                           | (168)    | (19)                                      | (11)% |
| Adjustments to loss from continuing operations:                                     |                                 |          |   |       |
| Net investment (gains) losses   | 8                               | 31       | (23)                                      | (74)% |
| Expenses related to restructuring   | 2                               | 1        | 1   | 100%  |
| Taxes on adjustments  | (2)                             | (11)     | 9   | 82%   |
| Adjusted operating loss available to Genworth Financial, Inc. s common stockholders | \$ (179)                        | \$ (147) | \$ (32)                                   | (22)% |

***Adjusted operating loss available to Genworth Financial, Inc. s common stockholders***

The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders increased primarily related to lower tax benefits and higher interest expense, partially offset by lower operating expenses in the current year.

***Revenues***

The decrease in net investment losses was primarily from lower derivative losses and lower net losses from the sale of investment securities in the current year.

***Benefits and expenses***

Acquisition and operating expenses, net of deferrals, decreased mainly driven by lower consulting fees and lower net expenses after allocations in the current year.



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Interest expense increased largely driven by a favorable correction of \$11 million related to our Tax Matters Agreement liability in the prior year that did not recur, higher interest expense related to the Term Loan that Genworth Holdings closed in March 2018 and from our junior subordinated notes which had a higher floating rate of interest in the current year. These increases were partially offset by lower interest expense associated with the redemption of \$597 million of Genworth Holdings' senior notes in May 2018.

The effective tax rate decreased to 18.6% for the nine months ended September 30, 2018 from 33.8% for the nine months ended September 30, 2017. The decrease in the effective tax rate was primarily attributable to changes resulting from the implementation of the TCJA, which included a U.S. federal tax rate change from 35% to 21%.

## **Investments and Derivative Instruments**

### ***Trends and conditions***

#### *Investments credit and investment markets*

The U.S. Federal Reserve increased its benchmark lending rate 25 basis points in September 2018. This was the third rate increase in 2018 and the U.S. Federal Reserve has maintained its forecast for a fourth rate increase in the fourth quarter of 2018. In addition, the U.S. Federal Reserve projects three additional 25 basis point increases in 2019 and one in 2020. The decision for additional rate increases was anticipated and indicates increased confidence in the United States economy as unemployment has reached multi-decade lows and economic growth has been strong in 2018. Likewise, inflation remains relatively stable but long-term forecasts remain uncertain. The U.S. Treasury yield curve continued to flatten in the third quarter of 2018 with short-term interest rates rising supported by the U.S. Federal Reserve rate increases, while long-term interest rates increased at a lesser rate due to inflationary concerns from ongoing speculation around tariffs and escalating tensions associated with trade wars. Credit markets experienced spread tightening in the third quarter of 2018 driven by a constructive economic backdrop, strong profit margins, higher corporate earnings, lower supply of bonds compared to the first half of 2018 and higher foreign demand. However, spreads on below investment grade emerging market bonds widened as countries exposed to a strengthening U.S. dollar and higher oil prices underperformed the broader credit markets.

As of September 30, 2018, our fixed maturities securities portfolio, which was 96% investment grade, comprised 85% of our total investment portfolio. Our \$3.7 billion energy portfolio was predominantly investment grade and our metals and mining sector holdings were less than 1% of our total investment portfolio as of September 30, 2018. We believe our energy portfolio is well-diversified and would expect manageable capital impact on our U.S. life insurance subsidiaries.

#### *Derivatives*

We actively responded to the risk in our derivatives portfolio arising from our counterparties' right to terminate their bilateral over-the-counter (OTC) derivative transactions with us following the downgrades of our life insurance subsidiaries by Moody's Investors Service, Inc. and A.M. Best in February 2018 and by S&P in September 2018. These actions included, beginning in 2018, the removal of the credit downgrade provisions from the master swap agreements with many of our counterparties. As of September 30, 2018, no counterparties exercised their rights to terminate or revise the terms of their transactions with us.

As of September 30, 2018, \$11.9 billion notional of our derivatives portfolio was cleared through the Chicago Mercantile Exchange (CME). The customer swap agreements that govern our cleared derivatives contain provisions that enable our clearing agents to request initial margin in excess of CME requirements. As of September 30, 2018,

we posted initial margin of \$233 million to our clearing agents, which represented approximately \$70 million more than was otherwise required by the clearinghouse. Because our clearing agents serve as guarantors of our obligations to the CME, the customer agreements contain broad termination provisions

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that are not specifically dependent on ratings. As of September 30, 2018, \$8.3 billion notional of our derivatives portfolio was in bilateral OTC derivative transactions pursuant to which we have posted aggregate independent amounts of \$337 million and are holding collateral from counterparties in the amount of \$181 million. We have no bilateral OTC derivatives where the counterparty has the right to terminate its transactions with us based on our current ratings.

**Investment results**

The following tables set forth information about our investment income, excluding net investment gains (losses), for each component of our investment portfolio for the periods indicated:

|   | Three months ended September 30, |           | 2017   |           | Increase<br>(decrease)<br>2018 vs. 2017 |          |
|---|----------------------------------|-----------|--------|-----------|---|----------|
| (Amounts in millions)   | Yield                            | Amount    | Yield  | Amount    | Yield                                   | Amount   |
| Fixed maturity securities taxable                                       | 4.5%                             | \$ 643    | 4.5%   | \$ 640    | %                                       | \$ 3     |
| Fixed maturity securities non-taxable                                   | 3.9%                             | 3         | 3.7%   | 3         | 0.2%                                    |          |
| Equity securities   | 5.7%                             | 11        | 5.1%   | 9         | 0.6%                                    | 2        |
| Commercial mortgage loans   | 5.0%                             | 81        | 5.0%   | 78        | %                                       | 3        |
| Restricted commercial mortgage loans related to securitization entities | 4.5%                             | 1         | 10.5%  | 3         | (6.0)%                                  | (2)      |
| Policy loans  | 8.8%                             | 41        | 8.6%   | 39        | 0.2%                                    | 2        |
| Other invested assets <sup>(1)</sup>                                    | 34.8%                            | 44        | 61.6%  | 39        | (26.8)%                                 | 5        |
| Cash, cash equivalents, restricted cash and short-term investments      | 1.8%                             | 13        | 1.1%   | 10        | 0.7%                                    | 3        |
| Gross investment income before expenses and fees                        | 4.8%                             | 837       | 4.7%   | 821       | 0.1%                                    | 16       |
| Expenses and fees   | (0.2)%                           | (22)      | (0.2)% | (24)      | %                                       | 2        |
| Net investment income   | 4.6%                             | \$ 815    | 4.5%   | \$ 797    | 0.1%                                    | \$ 18    |
| Average invested assets and cash  |                                  | \$ 70,196 |        | \$ 70,400 |   | \$ (204) |

|                                       | Nine months ended September 30, |          | 2017  |          | Increase<br>(decrease)<br>2018 vs. 2017 |        |
|---------------------------------------|---------------------------------|----------|-------|----------|---|--------|
| (Amounts in millions)                 | Yield                           | Amount   | Yield | Amount   | Yield                                   | Amount |
| Fixed maturity securities taxable     | 4.5%                            | \$ 1,929 | 4.5%  | \$ 1,930 | %                                       | \$ (1) |
| Fixed maturity securities non-taxable | 3.8%                            | 9        | 3.7%  | 9        | 0.1%                                    |        |
| Equity securities                     | 5.3%                            | 31       | 5.1%  | 26       | 0.2%                                    | 5      |
| Commercial mortgage loans             | 5.0%                            | 240      | 5.0%  | 231      | %                                       | 9      |
|                                       | 6.9%                            | 5        | 7.8%  | 7        | (0.9)%                                  | (2)    |

|   |        |           |        |           |        |        |
|---|--------|-----------|--------|-----------|--------|--------|
| Restricted commercial mortgage loans related to securitization entities |        |           |        |           |        |        |
| Policy loans  | 9.1%   | 125       | 9.0%   | 120       | 0.1%   | 5      |
| Other invested assets <sup>(1)</sup>                                    | 40.3%  | 136       | 45.7%  | 106       | (5.4)% | 30     |
| Restricted other invested assets related to securitization entities     |        |           |        |           |        |        |
|   | %      |           | 1.1%   | 1         | (1.1)% | (1)    |
| Cash, cash equivalents, restricted cash and short-term investments      |        |           |        |           |        |        |
|   | 1.6%   | 39        | 1.0%   | 26        | 0.6%   | 13     |
| Gross investment income before expenses and fees                        | 4.8%   | 2,514     | 4.7%   | 2,456     | 0.1%   | 58     |
| Expenses and fees   | (0.2)% | (67)      | (0.2)% | (68)      | %      | 1      |
| Net investment income   | 4.6%   | \$ 2,447  | 4.5%   | \$ 2,388  | 0.1%   | \$ 59  |
| Average invested assets and cash  |        | \$ 70,448 |        | \$ 70,018 |        | \$ 430 |

<sup>(1)</sup> Investment income for other invested assets includes amortization of terminated cash flow hedges, which have no corresponding book value within the yield calculation.

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Yields are based on net investment income as reported under U.S. GAAP and are consistent with how we measure our investment performance for management purposes. Yields are annualized, for interim periods, and are calculated as net investment income as a percentage of average quarterly asset carrying values except for fixed maturity securities, derivatives and derivative counterparty collateral, which exclude unrealized fair value adjustments and securities lending activity, which is included in other invested assets and is calculated net of the corresponding securities lending liability.

For the three months ended September 30, 2018, annualized weighted-average investment yields increased primarily attributable to higher investment income on lower average invested assets. Net investment income included \$4 million higher income related to inflation-driven volatility on U.S. Government Treasury Inflation Protected Securities ( TIPS ) as compared to the prior year.

For the nine months ended September 30, 2018, annualized weighted-average investment yields increased with higher investment income on higher average invested assets. Net investment income included \$6 million of higher limited partnership income, \$8 million higher income related to inflation-driven volatility on TIPS and \$7 million of unfavorable prepayment speed adjustments on structured securities as compared to the prior year. The nine months ended September 30, 2018 included an increase of \$3 million attributable to changes in foreign exchange rates.

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

|   | Three months ended<br>September 30,<br>20182017 |       | Nine months ended<br>September 30,<br>20182017 |        |
|---|---|-------|--|--------|
| (Amounts in millions)   |   |       |  |        |
| Available-for-sale securities:  |   |       |  |        |
| Realized gains  | \$ 22   | \$ 40 | \$ 42  | \$ 177 |
| Realized losses   | (30)  | (10)  | (67)   | (55)   |
| Net realized gains (losses) on available-for-sale securities                              | (8)   | 30    | (25)   | 122    |
| Impairments:  |   |       |  |        |
| Total other-than-temporary impairments  |   | (1)   |  | (4)    |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) |   |       |  |        |
| Net other-than-temporary impairments  |   | (1)   |  | (4)    |
| Net realized gains (losses) on equity securities sold                                     |   |       | 10   |        |
| Net unrealized gains (losses) on equity securities still held                             |   |       | (15)   |        |
| Trading securities  |   |       |  | 1      |
| Limited partnerships  | 3   |       | 8  |        |
| Commercial mortgage loans   |   | 1     |  | 3      |
| Net gains (losses) related to securitization entities                                     |   | 1     |  | 5      |
| Derivative instruments  | 18  | 54    | (10)   | 93     |
| Net investment gains (losses)   | \$ 13   | \$ 85 | \$ (32)  | \$ 220 |

***Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017***

Net investment gains related to derivatives of \$18 million during the three months ended September 30, 2018 were primarily associated with various hedging programs that support our Canada Mortgage Insurance segment and fixed indexed annuity products. These gains were partially offset by decreases in the values of instruments used to protect statutory surplus from equity market fluctuations and hedging programs for our fixed indexed annuity products.

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Net investment gains related to derivatives of \$54 million during the three months ended September 30, 2017 were primarily associated with various hedging programs that support our Canada Mortgage Insurance segment and hedging programs for our runoff variable annuity products. These gains were partially offset by losses related to hedging programs for our fixed indexed annuity products and derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries.

We recorded net realized losses of \$8 million related to the sale of available-for-sale securities during the three months ended September 30, 2018 compared to \$30 million of net realized gains during the three months ended September 30, 2017. We also recorded \$3 million of gains on limited partnerships from unrealized gains included in net income during the three months ended September 30, 2018 from adopting new accounting guidance related to the recognition and measurement of financial assets and financial liabilities on January 1, 2018.

### ***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

We recorded \$4 million of net other-than-temporary impairments during the nine months ended September 30, 2017. Of the total impairments recorded during the nine months ended September 30, 2017, \$1 million related to corporate securities, \$1 million related to limited partnerships and \$2 million related to equity securities.

Net investment losses related to derivatives of \$10 million during the nine months ended September 30, 2018 were primarily associated with hedging programs for our runoff variable annuity products, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to hedging programs for our fixed indexed annuity products. These losses were partially offset by gains from hedging programs for our indexed universal life products, derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and gains from amounts reclassified from other comprehensive income (loss) due to sales of previously hedged bond purchases.

Net investment gains related to derivatives of \$93 million during the nine months ended September 30, 2017 were primarily associated with various hedging programs that support our Canada Mortgage Insurance segment and hedging programs for our runoff variable annuity products. These gains were partially offset by losses related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and losses from hedging programs for our fixed indexed annuity products.

We recorded net realized losses of \$25 million related to the sale of available-for-sale securities during the nine months ended September 30, 2018 compared to \$122 million of net realized gains during the nine months ended September 30, 2017. We also recorded \$15 million of net unrealized losses on equity securities and \$8 million of gains on limited partnerships primarily from unrealized losses and gains, respectively, included in net income during the nine months ended September 30, 2018 from adopting new accounting guidance related to the recognition and measurement of financial assets and financial liabilities on January 1, 2018.





**Table of Contents****Investment portfolio**

The following table sets forth our cash, cash equivalents, restricted cash and invested assets as of the dates indicated:

| (Amounts in millions)   | September 30, 2018 |            | December 31, 2017 |            |
|---|--------------------|------------|-------------------|------------|
|   | Carrying value     | % of total | Carrying value    | % of total |
| Fixed maturity securities, available-for-sale:                          |                    |            |                   |            |
| Public  | \$ 42,291          | 58%        | \$ 45,665         | 61%        |
| Private   | 17,113             | 24         | 16,860            | 22         |
| Equity securities   | 783                | 1          | 820               | 1          |
| Commercial mortgage loans   | 6,568              | 9          | 6,341             | 8          |
| Restricted commercial mortgage loans related to securitization entities | 87                 |            | 107               |            |
| Policy loans  | 1,859              | 3          | 1,786             | 2          |
| Other invested assets   | 1,354              | 2          | 1,813             | 2          |
| Cash, cash equivalents and restricted cash                              | 2,505              | 3          | 2,875             | 4          |
| Total cash, cash equivalents, restricted cash and invested assets       | \$ 72,560          | 100%       | \$ 76,267         | 100%       |

For a discussion of the change in cash, cash equivalents, restricted cash and invested assets, see the comparison for this line item under Consolidated Balance Sheets. See note 4 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for additional information related to our investment portfolio.

We hold fixed maturity and equity securities, derivatives, embedded derivatives, securities held as collateral and certain other financial instruments, which are carried at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As of September 30, 2018, approximately 6% of our investment holdings recorded at fair value were based on significant inputs that were not market observable and were classified as Level 3 measurements. See note 6 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for additional information related to fair value.

**Table of Contents***Fixed maturity and equity securities*

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

| (Amounts in millions)  | Gross unrealized gains |                                     | Gross unrealized losses         |                                     | Fair value |
|--|------------------------|-------------------------------------|---------------------------------|-------------------------------------|------------|
|  | Amortized cost or cost | Not other-than-temporarily impaired | Other-than-temporarily impaired | Not other-than-temporarily impaired |            |
| Fixed maturity securities:                                     |                        |                                     |                                 |                                     |            |
| U.S. government, agencies and government-sponsored enterprises | \$ 4,733               | \$ 491                              | \$                              | \$ (43)                             | \$ 5,181   |
| State and political subdivisions                               | 2,686                  | 156                                 |                                 | (47)                                | 2,795      |
| Non-U.S. government <sup>(1)</sup>                             | 2,265                  | 65                                  |                                 | (41)                                | 2,289      |
| U.S. corporate:  |                        |                                     |                                 |                                     |            |
| Utilities  | 4,459                  | 341                                 |                                 | (89)                                | 4,711      |
| Energy   | 2,228                  | 136                                 |                                 | (28)                                | 2,336      |
| Finance and insurance  | 6,203                  | 264                                 |                                 | (115)                               | 6,352      |
| Consumer non-cyclical  | 4,496                  | 298                                 |                                 | (90)                                | 4,704      |
| Technology and communications                                  | 2,704                  | 127                                 |                                 | (56)                                | 2,775      |
| Industrial   | 1,152                  | 52                                  |                                 | (19)                                | 1,185      |
| Capital goods  | 2,209                  | 167                                 |                                 | (41)                                | 2,335      |
| Consumer cyclical  | 1,543                  | 62                                  |                                 | (32)                                | 1,573      |
| Transportation   | 1,190                  | 81                                  |                                 | (33)                                | 1,238      |
| Other  | 315                    | 15                                  |                                 | (1)                                 | 329        |
| Total U.S. corporate <sup>(1)</sup>                            | 26,499                 | 1,543                               |                                 | (504)                               | 27,538     |
| Non-U.S. corporate:  |                        |                                     |                                 |                                     |            |
| Utilities  | 1,028                  | 18                                  |                                 | (26)                                | 1,020      |
| Energy   | 1,299                  | 98                                  |                                 | (18)                                | 1,379      |
| Finance and insurance  | 2,483                  | 91                                  |                                 | (37)                                | 2,537      |
| Consumer non-cyclical  | 730                    | 9                                   |                                 | (18)                                | 721        |
| Technology and communications                                  | 1,085                  | 28                                  |                                 | (16)                                | 1,097      |
| Industrial   | 904                    | 40                                  |                                 | (11)                                | 933        |
| Capital goods  | 603                    | 13                                  |                                 | (9)                                 | 607        |
| Consumer cyclical  | 543                    | 2                                   |                                 | (11)                                | 534        |
| Transportation   | 690                    | 43                                  |                                 | (13)                                | 720        |
| Other  | 2,542                  | 108                                 |                                 | (25)                                | 2,625      |
| Total non-U.S. corporate <sup>(1)</sup>                        | 11,907                 | 450                                 |                                 | (184)                               | 12,173     |
| Residential mortgage-backed <sup>(2)</sup>                     | 3,125                  | 123                                 | 13                              | (39)                                | 3,222      |
| Commercial mortgage-backed                                     | 3,217                  | 38                                  |                                 | (99)                                | 3,156      |
| Other asset-backed <sup>(2)</sup>                              | 3,066                  | 4                                   | 1                               | (21)                                | 3,050      |

|  |           |          |       |          |    |           |
|--|-----------|----------|-------|----------|----|-----------|
| Total available-for-sale fixed maturity securities | \$ 57,498 | \$ 2,870 | \$ 14 | \$ (978) | \$ | \$ 59,404 |
|--|-----------|----------|-------|----------|----|-----------|

- (1) Fair value included European periphery exposure of \$514 million in Ireland, \$256 million in Spain, \$125 million in Italy and \$36 million in Portugal.
- (2) Fair value included \$21 million collateralized by Alt-A residential mortgage loans and \$23 million collateralized by sub-prime residential mortgage loans.

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

| (Amounts in millions)  | Gross unrealized       |                                     |                                 |                                 | Fair value |
|--|------------------------|-------------------------------------|---------------------------------|---------------------------------|------------|
|  | Amortized cost or cost | Not other-than-temporarily impaired | gains                           | Gross unrealized losses         |            |
|  |                        |                                     | Other-than-temporarily impaired | Other-than-temporarily impaired |            |
| <b>Fixed maturity securities:</b>                              |                        |                                     |                                 |                                 |            |
| U.S. government, agencies and government-sponsored enterprises | \$ 4,681               | \$ 870                              | \$                              | \$ (3)                          | \$ 5,548   |
| State and political subdivisions                               | 2,678                  | 270                                 |                                 | (22)                            | 2,926      |
| Non-U.S. government <sup>(1)</sup>                             | 2,147                  | 106                                 |                                 | (20)                            | 2,233      |
| <b>U.S. corporate:</b>   |                        |                                     |                                 |                                 |            |
| Utilities  | 4,396                  | 611                                 |                                 | (9)                             | 4,998      |
| Energy   | 2,239                  | 227                                 |                                 | (8)                             | 2,458      |
| Finance and insurance  | 5,984                  | 556                                 |                                 | (12)                            | 6,528      |
| Consumer non-cyclical  | 4,314                  | 530                                 |                                 | (13)                            | 4,831      |
| Technology and communications                                  | 2,665                  | 192                                 |                                 | (12)                            | 2,845      |
| Industrial   | 1,241                  | 106                                 |                                 | (1)                             | 1,346      |
| Capital goods  | 2,087                  | 273                                 |                                 | (5)                             | 2,355      |
| Consumer cyclical  | 1,493                  | 116                                 |                                 | (4)                             | 1,605      |
| Transportation   | 1,160                  | 134                                 |                                 | (3)                             | 1,291      |
| Other  | 355                    | 25                                  |                                 | (1)                             | 379        |
| Total U.S. corporate <sup>(1)</sup>                            | 25,934                 | 2,770                               |                                 | (68)                            | 28,636     |
| <b>Non-U.S. corporate:</b>                                     |                        |                                     |                                 |                                 |            |
| Utilities  | 979                    | 42                                  |                                 | (4)                             | 1,017      |
| Energy   | 1,337                  | 158                                 |                                 | (5)                             | 1,490      |
| Finance and insurance  | 2,567                  | 174                                 |                                 | (6)                             | 2,735      |
| Consumer non-cyclical  | 686                    | 30                                  |                                 | (4)                             | 712        |
| Technology and communications                                  | 913                    | 71                                  |                                 | (2)                             | 982        |
| Industrial   | 958                    | 88                                  |                                 | (2)                             | 1,044      |
| Capital goods  | 614                    | 33                                  |                                 | (2)                             | 645        |
| Consumer cyclical  | 532                    | 9                                   |                                 | (1)                             | 540        |
| Transportation   | 656                    | 68                                  |                                 | (3)                             | 721        |
| Other  | 2,536                  | 193                                 |                                 | (4)                             | 2,725      |
| Total non-U.S. corporate <sup>(1)</sup>                        | 11,778                 | 866                                 |                                 | (33)                            | 12,611     |
| Residential mortgage-backed <sup>(2)</sup>                     | 3,831                  | 223                                 | 14                              | (11)                            | 4,057      |
| Commercial mortgage-backed                                     | 3,387                  | 94                                  | 2                               | (37)                            | 3,446      |
| Other asset-backed <sup>(2)</sup>                              | 3,056                  | 17                                  | 1                               | (6)                             | 3,068      |
| Total fixed maturity securities                                | 57,492                 | 5,216                               | 17                              | (200)                           | 62,525     |

|                                     |           |          |       |          |           |
|-------------------------------------|-----------|----------|-------|----------|-----------|
| Equity securities                   | 756       | 72       | (8)   | 820      |           |
| Total available-for-sale securities | \$ 58,248 | \$ 5,288 | \$ 17 | \$ (208) | \$ 63,345 |

- (1) Fair value included European periphery exposure of \$503 million in Ireland, \$266 million in Spain, \$132 million in Italy and \$38 million in Portugal.
- (2) Fair value included \$36 million collateralized by Alt-A residential mortgage loans and \$24 million collateralized by sub-prime residential mortgage loans.

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Fixed maturity securities decreased \$3.1 billion compared to December 31, 2017 principally from lower net unrealized gains attributable to an increase in interest rates in the current year.

Our exposure in peripheral European countries consists of fixed maturity securities in Portugal, Ireland, Italy and Spain. Investments in these countries are primarily made to diversify our U.S. corporate fixed maturity securities with European bonds denominated in U.S. dollars. During the nine months ended September 30, 2018, our exposure to the peripheral European countries decreased by \$8 million to \$931 million with unrealized gains of \$18 million. Our exposure as of September 30, 2018 was diversified with direct exposure to local economies of \$195 million, indirect exposure through debt issued by subsidiaries outside of the European periphery of \$155 million and exposure to multinational companies where the majority of revenues come from outside of the country of domicile of \$581 million.

*Commercial mortgage loans*

The following tables set forth additional information regarding our commercial mortgage loans as of the dates indicated:

| (Dollar amounts in millions) | Total recorded investment | Number of loans | September 30, 2018           |                              |                            |
|------------------------------|---------------------------|-----------------|------------------------------|------------------------------|----------------------------|
|                              |                           |                 | Loan-to-value <sup>(1)</sup> | Delinquent principal balance | Number of delinquent loans |
| <b>Loan Year</b>             |                           |                 |                              |                              |                            |
| 2006 and prior               | \$ 1,011                  | 407             | 39%                          | \$ 6                         | 1                          |
| 2007                         | 273                       | 75              | 48%                          |                              |                            |
| 2008                         | 100                       | 18              | 48%                          |                              |                            |
| 2009                         |                           |                 | %                            |                              |                            |
| 2010                         | 51                        | 11              | 40%                          |                              |                            |
| 2011                         | 196                       | 46              | 43%                          |                              |                            |
| 2012                         | 483                       | 82              | 47%                          |                              |                            |
| 2013                         | 674                       | 125             | 50%                          |                              |                            |
| 2014                         | 784                       | 134             | 55%                          |                              |                            |
| 2015                         | 883                       | 139             | 61%                          |                              |                            |
| 2016                         | 583                       | 98              | 65%                          |                              |                            |
| 2017                         | 777                       | 144             | 69%                          |                              |                            |
| 2018                         | 766                       | 120             | 69%                          |                              |                            |
| <b>Total</b>                 | <b>\$ 6,581</b>           | <b>1,399</b>    | <b>55%</b>                   | <b>\$ 6</b>                  | <b>1</b>                   |

<sup>(1)</sup> Represents weighted-average loan-to-value as of September 30, 2018.

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| (Dollar amounts in millions) | December 31, 2017         |                 |                              |                              |                            |
|------------------------------|---------------------------|-----------------|------------------------------|------------------------------|----------------------------|
|                              | Total recorded investment | Number of loans | Loan-to-value <sup>(1)</sup> | Delinquent principal balance | Number of delinquent loans |
| <b>Loan Year</b>             |                           |                 |                              |                              |                            |
| 2006 and prior               | \$ 1,226                  | 480             | 38%                          | \$ 6                         | 1                          |
| 2007                         | 289                       | 76              | 49%                          | 5                            | 1                          |
| 2008                         | 125                       | 23              | 50%                          |                              |                            |
| 2009                         |                           |                 | %                            |                              |                            |
| 2010                         | 76                        | 15              | 42%                          |                              |                            |
| 2011                         | 206                       | 47              | 43%                          |                              |                            |
| 2012                         | 559                       | 85              | 45%                          |                              |                            |
| 2013                         | 737                       | 132             | 48%                          |                              |                            |
| 2014                         | 835                       | 139             | 54%                          |                              |                            |
| 2015                         | 904                       | 141             | 61%                          |                              |                            |
| 2016                         | 599                       | 99              | 60%                          |                              |                            |
| 2017                         | 797                       | 146             | 68%                          |                              |                            |
| <b>Total</b>                 | <b>\$ 6,353</b>           | <b>1,383</b>    | <b>52%</b>                   | <b>\$ 11</b>                 | <b>2</b>                   |

<sup>(1)</sup> Represents weighted-average loan-to-value as of December 31, 2017.

*Other invested assets*

The following table sets forth the carrying values of our other invested assets as of the dates indicated:

| (Amounts in millions)              | September 30, 2018 |             | December 31, 2017 |             |
|------------------------------------|--------------------|-------------|-------------------|-------------|
|                                    | Carrying value     | % of total  | Carrying value    | % of total  |
| Limited partnerships               | \$ 372             | 27%         | \$ 258            | 14%         |
| Short-term investments             | 359                | 27          | 902               | 50          |
| Derivatives                        | 245                | 18          | 276               | 15          |
| Bank loan investments              | 194                | 14          | 91                | 5           |
| Securities lending collateral      | 166                | 12          | 268               | 15          |
| Other investments                  | 18                 | 2           | 18                | 1           |
| <b>Total other invested assets</b> | <b>\$ 1,354</b>    | <b>100%</b> | <b>\$ 1,813</b>   | <b>100%</b> |

Short-term investments decreased principally due to net sales and maturities in our Australia and Canada Mortgage Insurance segments in the current year. Securities lending collateral decreased driven by lower market demand. Limited partnerships increased from additional capital investments and from net unrealized gains, partially offset by return of capital on our investments in the current year. Bank loan investments increased from funding of loans in the current year.





**Table of Contents***Derivatives*

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for GMWB and fixed index annuity 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,<br>2017 | Additions | Maturities/<br>terminations | September 30,<br>2018 |
|---|-------------|----------------------|-----------|-----------------------------|-----------------------|
| <b>Derivatives designated as hedges</b>     |             |                      |           |                             |                       |
| Cash flow hedges:                           |             |                      |           |                             |                       |
| Interest rate swaps                         | Notional    | \$ 11,155            | \$ 1,645  | \$ (1,978)                  | \$ 10,822             |
| Foreign currency swaps                      | Notional    | 22                   | 58        |                             | 80                    |
| Total cash flow hedges                      |             | 11,177               | 1,703     | (1,978)                     | 10,902                |
| Total derivatives designated as hedges      |             | 11,177               | 1,703     | (1,978)                     | 10,902                |
| <b>Derivatives not designated as hedges</b> |             |                      |           |                             |                       |
| Interest rate swaps                         | Notional    | 4,679                |           | (5)                         | 4,674                 |
| Interest rate swaps in a foreign currency   | Notional    | 2,793                | 117       | (203)                       | 2,707                 |
| Interest rate caps and floors               | Notional    |                      | 2,090     | (79)                        | 2,011                 |
| Foreign currency swaps                      | Notional    | 349                  | 133       | (23)                        | 459                   |
| Credit default swaps                        | Notional    | 39                   |           | (39)                        |                       |
| Equity index options                        | Notional    | 2,420                | 1,895     | (1,484)                     | 2,831                 |
| Financial futures                           | Notional    | 1,283                | 3,901     | (3,964)                     | 1,220                 |
| Equity return swaps                         | Notional    | 96                   | 3         | (78)                        | 21                    |
| Other foreign currency contracts            | Notional    | 471                  | 516       | (502)                       | 485                   |
| Total derivatives not designated as hedges  |             | 12,130               | 8,655     | (6,377)                     | 14,408                |
| Total derivatives                           |             | \$ 23,307            | \$ 10,358 | \$ (8,355)                  | \$ 25,310             |

| (Number of policies)                        | Measurement | December 31,<br>2017 | Additions | Maturities/<br>terminations | September 30,<br>2018 |
|---|-------------|----------------------|-----------|-----------------------------|-----------------------|
| <b>Derivatives not designated as hedges</b> |             |                      |           |                             |                       |
| GMWB embedded derivatives                   | Policies    | 30,450               |           | (2,008)                     | 28,442                |
| Fixed index annuity embedded derivatives    | Policies    | 17,067               |           | (390)                       | 16,677                |
| Indexed universal life embedded derivatives | Policies    | 985                  |           | (38)                        | 947                   |

The increase in the notional value of derivatives was primarily attributable to an increase in interest rate caps and floors related to our hedging strategy to mitigate interest rate risk associated with our regulatory capital position.

The number of policies related to our embedded derivatives decreased as these products are no longer being offered and continue to runoff.

### **Consolidated Balance Sheets**

*Total assets.* Total assets decreased \$3,176 million from \$105,297 million as of December 31, 2017 to \$102,121 million as of September 30, 2018.

Cash, cash equivalents, restricted cash and invested assets decreased \$3,707 million primarily from a decrease of \$3,121 million in fixed maturity securities, a decrease of \$459 million in other invested

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assets and a decrease in cash, cash equivalents and restricted cash of \$370 million. The decrease in fixed maturity securities was predominantly related to a decline in market values as a result of an increase in interest rates in the current year. The decrease in other invested assets was primarily related to net sales and maturities of short-term investments, mostly in our Australia and Canada mortgage insurance businesses. Cash, cash equivalents and restricted cash decreased primarily from the redemption of Genworth Holdings May 2018 senior notes and payments of dividends to and the repurchase of subsidiary shares from noncontrolling interests, partially offset by net proceeds from the Term Loan closed by Genworth Holdings in March 2018.

DAC increased \$1,007 million predominantly related to our U.S. Life Insurance segment. We are required to analyze the impacts from net unrealized investment gains and losses on our available-for-sale investment securities backing insurance liabilities, as if those unrealized investment gains and losses were realized. As of September 30, 2018, due primarily to the increase in interest rates decreasing unrealized investments gains, we increased the DAC balance of our U.S. Life Insurance segment by \$1,187 million with an offsetting amount recorded in other comprehensive income (loss). The increase was partially offset by amortization, net of interest and deferrals, in our U.S. Life Insurance segment in the current year.

Reinsurance recoverable decreased \$218 million mainly attributable to the runoff of our structured settlement products ceded to Union Fidelity Life Insurance Company, an affiliate of our former parent, GE.

Separate account assets decreased \$485 million primarily due to cash outflows from surrenders and benefits as the business continues to run off.

*Total liabilities.* Total liabilities decreased \$2,469 million from \$89,969 million as of December 31, 2017 to \$87,500 million as of September 30, 2018.

Future policy benefits decreased \$454 million primarily driven by our U.S Life Insurance segment. As discussed above, the increase in interest rates decreased our unrealized investments gains. As a result, we decreased future policy benefits by \$910 million, mostly in our long-term care insurance business, with an offsetting amount recorded in other comprehensive income (loss), referred to as shadow accounting adjustments. This decrease was partially offset by aging of our long-term care insurance in-force block in the current year.

Policyholder account balances decreased \$1,202 million largely as a result of surrenders and benefits in our fixed annuities business in the current year.

Liability for policy and contract claims increased \$250 million principally related to our long-term care insurance business driven mostly by aging of our in-force block and from higher severity of claims in the current year.

Unearned premiums decreased \$299 million largely from changes in foreign currency from the strengthening of the U.S. dollar compared to the currencies in Canada and Australia. In our international mortgage insurance businesses, the decrease was also driven by earned premiums outpacing written premiums mostly related to a review of our premium earnings pattern in the fourth quarter of 2017 in our Australia mortgage insurance business and due to lower new insurance written in the current year.

Long-term borrowings decreased \$173 million principally from the redemption of \$597 million of senior notes that matured in May 2018, partially offset by the \$450 million Term Loan Genworth Holdings closed in March 2018.

*Total equity.* Total equity decreased \$707 million from \$15,328 million as of December 31, 2017 to \$14,621 million as of September 30, 2018.

We reported net income available to Genworth Financial, Inc.'s common stockholders of \$448 million during the nine months ended September 30, 2018. On January 1, 2018, we adopted new accounting

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guidance on a modified retrospective basis and recorded \$114 million to cumulative effect of change in accounting within retained earnings. See note 2 in our unaudited condensed consolidated financial statements for additional information.

Foreign currency translation and other adjustments decreased \$135 million principally from the strengthening of the U.S. dollar compared to the currencies in Canada and Australia in the current year.

Noncontrolling interests decreased \$87 million predominantly related to the repurchase of shares of \$89 million, dividends to noncontrolling interests of \$83 million, foreign currency translation adjustments of \$77 million and net unrealized losses, partially offset by net income attributable to noncontrolling interests of \$176 million in the current year.

Net unrealized gains (losses) decreased \$477 million primarily from an increase in interest rates in the current year.

Derivatives qualifying as hedges decreased \$348 million largely from an increase in interest rates in the current year.

**Liquidity and Capital Resources**

Liquidity and capital resources represent our overall financial strength and our ability to generate cash flows from our businesses, borrow funds at competitive rates and raise new capital to meet our operating and growth needs.

*Genworth and subsidiaries*

The following table sets forth our unaudited condensed consolidated cash flows for the nine months ended September 30:

| <b>(Amounts in millions)</b>                        | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| Net cash from operating activities                  | \$ 973      | \$ 1,932    |
| Net cash from (used by) investing activities        | 69          | (678)       |
| Net cash used by financing activities               | (1,350)     | (1,270)     |
| Net decrease in cash before foreign exchange effect | \$ (308)    | \$ (16)     |

Our principal sources of cash include sales of our products and services, income from our investment portfolio and proceeds from sales of investments. As an insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed policy acquisition costs, benefits paid, redemptions and operating expenses. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. Positive cash flows from operating activities are then invested to support the obligations of our insurance and investment products and required capital supporting these products. In analyzing our cash flow, we focus on the change in the amount of cash available and used in investing activities. Changes in cash from financing activities

primarily relate to the issuance of, and redemptions and benefit payments on, universal life insurance and investment contracts; the issuance and acquisition of debt and equity securities; the issuance and repayment or repurchase of borrowings and non-recourse funding obligations; and other capital transactions.

We had lower cash inflows from operating activities during the current year mainly attributable to net sales of trading securities in the prior year that did not recur and higher cash outflows in the current year as a result of the change in collateral related to derivative positions.

We had cash inflows from investing activities in the current year compared to cash outflows in the prior year primarily driven by net sales of short-term investments in the current year compared to net purchases in the

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prior year, largely driven by the decision to manage the interest rate risk and reposition our portfolios, particularly in our Australian mortgage insurance business. This was partially offset by higher net purchases of fixed maturity securities in the current year.

We had cash outflows from financing activities during the current year primarily from the redemption of \$597 million of Genworth Holdings May 2018 senior notes, net withdrawals from our investment contracts and dividends paid to and the repurchase of subsidiary shares from noncontrolling interests, partially offset by \$441 million net proceeds from the Term Loan closed in March 2018. Cash outflows in the prior year were primarily driven by net withdrawals from our investment contracts.

In the United States and Canada, we engage in certain securities lending transactions for the purpose of enhancing the yield on our investment securities portfolio. We maintain effective control over all loaned securities and, therefore, continue to report such securities as fixed maturity securities on the consolidated balance sheets. We are currently indemnified against counterparty credit risk by the intermediary.

We previously had a repurchase program in which we sold an investment security at a specified price and agreed to repurchase that security at another specified price at a later date. In 2017 we repaid \$75 million, the entire amount due at maturity related to these repurchase agreements.

*Genworth holding company*

Genworth Financial and Genworth Holdings each act as a holding company for their respective subsidiaries and do not have any significant operations of their own. Dividends from their respective subsidiaries, payments to them under tax sharing and expense reimbursement arrangements with their subsidiaries and proceeds from borrowings or securities issuances are their principal sources of cash to meet their obligations. Insurance laws and regulations regulate the payment of dividends and other distributions to Genworth Financial and Genworth Holdings by their insurance subsidiaries. We expect dividends paid by the insurance subsidiaries will vary depending on strategic objectives, regulatory requirements and business performance.

The primary uses of funds at Genworth Financial and Genworth Holdings include payment of holding company general operating expenses (including taxes), payment of principal, interest and other expenses on current and any future borrowings, payments under current and any future guarantees (including guarantees of certain subsidiary obligations), payment of amounts owed to GE under the Tax Matters Agreement, payments to subsidiaries (and, in the case of Genworth Holdings, to Genworth Financial) under tax sharing agreements, contributions to subsidiaries, repurchases of debt securities and, in the case of Genworth Holdings, loans, dividends or other distributions to Genworth Financial. In deploying future capital, important current priorities include focusing on our operating businesses so they remain appropriately capitalized, and accelerating progress on reducing overall indebtedness of Genworth Holdings. We may from time to time seek to repurchase or redeem outstanding notes for cash (with cash on hand, proceeds from the issuance of new debt and/or the proceeds from asset or stock sales) in open market purchases, tender offers, privately negotiated transactions or otherwise. We currently seek to address our indebtedness over time through repurchases, redemptions and/or repayments at maturity.

Our Board of Directors has suspended the payment of stockholder dividends on our Genworth Financial common stock indefinitely. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will be dependent on many factors including the receipt of dividends from our operating subsidiaries, our financial condition and operating results, the capital requirements of our subsidiaries, legal requirements, regulatory constraints, our credit and financial strength ratings and such other factors as the Board of Directors deems relevant. In addition, our Board of Directors has suspended repurchases of our Genworth Financial

common stock under our stock repurchase program indefinitely. The resumption of our stock repurchase program will be at the discretion of our Board of Directors.



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Genworth Holdings had \$534 million and \$795 million of cash, cash equivalents and restricted cash as of September 30, 2018 and December 31, 2017, respectively, which included approximately \$16 million and \$4 million of restricted cash, respectively. Genworth Holdings also held \$75 million in U.S. government securities as of September 30, 2018 and December 31, 2017, which included approximately \$37 million and \$41 million, respectively, of restricted assets.

During the nine months ended September 30, 2018 and 2017, Genworth Holdings received common stock dividends from our international subsidiaries of \$169 million and \$119 million, respectively. Our U.S. mortgage insurance business also paid a \$50 million dividend during the second quarter of 2018. We expect this will be the only dividend paid by our U.S. mortgage insurance business in 2018.

*Regulated insurance subsidiaries*

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

Our insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. Our insurance subsidiaries' principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income, including commissions, cost of insurance, mortality, expense and surrender charges, contract underwriting fees, investment management fees and dividends and distributions from their subsidiaries. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance and long-term care insurance policies, are matched with investments having similar duration such as long-term fixed maturity securities and commercial mortgage loans. Shorter-term liabilities are matched with fixed maturity securities that have short- and medium-term fixed maturities. In addition, our insurance subsidiaries hold highly liquid, high quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals. As of September 30, 2018, our total cash, cash equivalents, restricted cash and invested assets were \$72.6 billion. Our investments in privately placed fixed maturity securities, commercial mortgage loans, policy loans, limited partnership investments and select mortgage-backed and asset-backed securities are relatively illiquid. These asset classes represented approximately 36% of the carrying value of our total cash, cash equivalents, restricted cash and invested assets as of September 30, 2018.

As of September 30, 2018, our U.S. mortgage insurance business was compliant with the PMIERS capital requirements, with a prudent buffer. Reinsurance transactions provided an aggregate of approximately \$575 million of PMIERS capital credit as of September 30, 2018. Our U.S. mortgage insurance business may execute future capital transactions to maintain a prudent level of financial flexibility in excess of the PMIERS capital requirements given the dynamic nature of asset valuations and requirement changes over time, including additional reinsurance transactions and contributions of holding company cash.

In May 2018, Genworth Mortgage Insurance Australia Limited ( Genworth Australia ) announced its intention to commence an on-market share buy-back program for shares up to a maximum aggregate amount of AUD\$100

million. Pursuant to the program, Genworth Australia repurchased approximately 36 million of its

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shares for AUD\$100 million. As the majority shareholder, we participated in on-market sales transactions during the buy-back period to maintain our ownership position of approximately 52.0% and received \$37 million in cash, which was paid as dividends to Genworth Holdings.

Genworth Australia began a previous share buy-back program in 2017 and completed it in February 2018, repurchasing approximately 19 million shares for AUD\$49 million in the first quarter of 2018. As the majority shareholder, we participated in on-market sales transactions during the buy-back period to maintain our ownership position of approximately 52.0% and received \$20 million in cash, which was paid to Genworth Holdings as a dividend.

In May 2018, Genworth Canada announced acceptance by the Toronto Stock Exchange of its Notice of Intention to Make a Normal Course Issuer Bid ( NCIB ). Pursuant to the NCIB, Genworth Canada may, if considered advisable, purchase from time to time through May 6, 2019, up to an aggregate of approximately 4.5 million of its issued and outstanding common shares. In the third quarter of 2018, Genworth Canada repurchased approximately 1.1 million of its shares for CAD\$50 million through the NCIB. We participated in the NCIB in order to maintain our ownership position of approximately 57.0% and received \$21 million in cash. Of the \$21 million of cash proceeds received, \$14 million was paid as dividends to Genworth Holdings and \$7 million was retained by GMICO. If Genworth Canada decides to repurchase additional shares through the NCIB, we intend to participate in order to maintain our overall ownership at its current level.

In March 2018, Genworth Canada repurchased approximately 1.2 million shares for CAD\$50 million through a previous NCIB. As the majority shareholder, we participated in the NCIB in order to maintain our ownership position of approximately 57.0% and received \$22 million in cash. Of the \$22 million of cash proceeds received, \$16 million was paid as a dividend to Genworth Holdings and \$6 million was retained by GMICO.

### *Capital resources and financing activities*

On October 26, 2018, Genworth Canada, our majority-owned subsidiary, amended its existing credit agreement whereby the syndicated senior unsecured revolving credit facility was increased from CAD\$200 million to CAD\$300 million. The maturity date was extended to September 29, 2023. Any borrowings under Genworth Canada's credit facility will bear interest at a rate per annum equal to, at the option of Genworth Canada, either a fixed rate or a variable rate pursuant to the terms of the amended credit agreement. The credit facility includes customary representations, warranties, covenants, terms and conditions.

On October 4, 2018, Genworth Holdings completed a bond consent solicitation whereby it amended its senior notes indenture to clarify that GLAIC and the subsidiaries of GLIC, GLAIC and GLICNY are excluded from the class of subsidiaries for which a bankruptcy, insolvency or other similar proceeding would result in an event of default under the indenture. In October 2018, we paid approximately \$11 million of total fees, which consisted of bond consent fees, broker, advisor and investment banking fees. The bond consent fees will be deferred and the remaining fees will be expensed in the fourth quarter of 2018.

On May 22, 2018, Genworth Holdings redeemed \$597 million of its 6.52% senior notes that were issued in May 2008 and matured in May 2018. A cash payment of \$616 million comprising net proceeds of \$441 million from the Term Loan, as described below, and \$175 million of existing cash on hand was used to fully redeem the principal and accrued interest balance of the May 2018 senior notes.

On March 7, 2018, Genworth Holdings entered into a \$450 million Term Loan, which matures in March 2023 and was issued at a 0.5% discount. Principal payments under the agreement are due quarterly, commencing on June 30,

2018, and are payable in equal amounts of 0.25% per quarter of the original principal amount with the remaining balance due at maturity. At our option, the Term Loan will bear interest at either an adjusted LIBOR rate no lower than 1.0% plus a margin of 4.5% per annum or an alternate base rate plus a margin of

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3.5% per annum. The interest rate on the Term Loan as of September 30, 2018 was 6.6%. We incurred \$7 million of borrowing costs that were deferred. The Term Loan is unconditionally guaranteed by Genworth Financial, and GFIH has provided a limited recourse guarantee to the lenders of Genworth Holdings' outstanding Term Loan, which is secured by GFIH's ownership interest in Genworth Canada's outstanding common shares. GFIH is our indirect wholly-owned subsidiary and owns approximately 40.5% of the outstanding common stock of Genworth Canada. The Term Loan is subject to other terms and conditions, including but not limited to: voluntary prepayments subject to prepayment penalties, mandatory prepayments in the event of certain asset sales or the incurrence of further indebtedness by Genworth Financial and various financial covenants.

We believe existing cash held at Genworth Holdings combined with dividends from operating subsidiaries, payments under tax sharing and expense reimbursement arrangements with subsidiaries, proceeds from borrowings or securities issuances and, if necessary, sales of assets, as described below, will provide us with sufficient capital flexibility and liquidity to meet our projected future operating and financing requirements. We actively monitor our liquidity position, liquidity generation options and the credit markets given changing market conditions. Due to the delay in the closing of the China Oceanwide transaction, the proceeds of the Term Loan, as described above, were used, together with cash on hand, to retire our May 2018 senior notes. During the first quarter of 2018, given the proceeds from the Term Loan were dedicated to pay the May 2018 senior notes and we have no additional debt maturities due until 2020, we reduced our cash buffer modestly to two times expected annual debt interest payments. We previously managed liquidity at Genworth Holdings to maintain a minimum balance of one and one-half times expected annual debt interest payments plus an additional \$350 million. We will continue to evaluate our target level of liquidity as circumstances warrant and may move above or below the target for a period of time given future actions and due to the timing of cash inflows and outflows. Additionally, we will continue to evaluate market influences on the valuation of our senior debt, and may consider additional opportunities to repurchase our debt over time. We cannot predict with any certainty the impact to us from any future disruptions in the credit markets or the recent or any further downgrades by one or more of the rating agencies of the financial strength ratings of our insurance company subsidiaries and/or the credit ratings of our holding companies. In the absence of the transaction with China Oceanwide, we may need to pursue asset sales to address our debt maturities, including potential sales of our mortgage insurance businesses in Canada and Australia. We are also evaluating 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. The availability of additional funding will depend on a variety of factors such as market conditions, regulatory considerations, the general availability of credit, the overall availability of credit to the financial services industry, the level of activity and availability of reinsurance, our credit ratings and credit capacity and the performance of and outlook for our business. For a discussion of certain risks associated with our liquidity, see Item 1A Risk Factors. Our internal sources of liquidity may be insufficient to meet our needs and our access to capital may be limited or unavailable. Under such conditions, we may seek additional capital but may be unable to obtain it in our 2017 Annual Report on Form 10-K.

### *Contractual obligations and commercial commitments*

Except as disclosed above, there have been no material additions or changes to our contractual obligations and commercial commitments as set forth in our 2017 Annual Report on Form 10-K filed on February 28, 2018.

### **Securitization Entities**

There were no off-balance sheet securitization transactions during the nine months ended September 30, 2018 or 2017.

### **New Accounting Standards**

For a discussion of recently adopted accounting standards, see note 2 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. Except as disclosed below, there were no other material changes in our market risks since December 31, 2017.

The U.S. Federal Reserve increased its benchmark lending rate 25 basis points in September 2018. This was the third rate increase in 2018 and the U.S. Federal Reserve has maintained its forecast for a fourth rate increase in the fourth quarter of 2018. In addition, the U.S. Federal Reserve projects three additional 25 basis point increases in 2019 and one in 2020. The decision for additional rate increases was anticipated and indicates increased confidence in the United States economy as unemployment has reached multi-decade lows and economic growth has been strong in 2018. Likewise, inflation remains relatively stable but long-term forecasts remain uncertain. The U.S. Treasury yield curve continued to flatten in the third quarter of 2018 with short-term interest rates rising supported by the U.S. Federal Reserve rate increases, while long-term interest rates increased at a lesser rate due to inflationary concerns from ongoing speculation around tariffs and escalating tensions associated with trade wars. Credit markets experienced spread tightening in the third quarter of 2018 driven by a constructive economic backdrop, strong profit margins, higher corporate earnings, lower supply of bonds compared to the first half of 2018 and higher foreign demand. However, spreads on below investment grade emerging market bonds widened as countries exposed to a strengthening U.S. dollar and higher oil prices underperformed the broader credit markets. See [Business trends and conditions](#) and [Investments and Derivative Instruments](#) in [Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations](#) for further discussion of recent market conditions.

We are exposed to foreign currency exchange risks associated with fluctuations in foreign currency exchange rates against the U.S. dollar resulting from our international operations and non-U.S.-denominated securities. Our primary international operations are located in Canada and Australia. The assets and liabilities of our international operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, while revenues and expenses of our international operations are translated into U.S. dollars at the average rates of exchange during the period of the transaction. In general, the weakening of the U.S. dollar results in higher levels of reported assets, liabilities, revenues and net income. As of September 30, 2018, the U.S. dollar strengthened against the currencies in Canada and Australia compared to the balance sheet rate as of December 31, 2017 and September 30, 2017. In the third quarter of 2018, the U.S. dollar strengthened against the currencies in Canada and Australia compared to the average rate in the third quarter of 2017. See [Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations](#) for further discussion on the impact of changes in foreign currency exchange rates.

**Item 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

As of September 30, 2018, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

**Changes in Internal Control Over Financial Reporting During the Quarter Ended September 30, 2018**

During the three months ended September 30, 2018, there have not been any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

See note 10 in our unaudited condensed consolidated financial statements under Part 1 Item 1 Financial Statements for a description of material pending litigation and regulatory matters affecting us.

**Item 1A. Risk Factors**

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our 2017 Annual Report on Form 10-K, which together describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There have been no material changes to the risk factors set forth in the above-referenced filing as of September 30, 2018.

**Item 6. Exhibits**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 2.1           | <u>Sixth Waiver and Agreement, dated as of August 14, 2018, by and among Genworth Financial, Inc., Asia Pacific Global Capital Co., Ltd., and Asia Pacific Global Capital USA Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 14, 2018)</u> |
| 12            | <u>Statement of Ratio of Income to Fixed Charges (filed herewith)</u>   |
| 31.1          | <u>Certification of Thomas J. McInerney (filed herewith)</u>  |
| 31.2          | <u>Certification of Kelly L. Groh (filed herewith)</u>  |
| 32.1          | <u>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Thomas J. McInerney (filed herewith)</u>  |
| 32.2          | <u>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Kelly L. Groh (filed herewith)</u>  |
| 101.INS       | XBRL Instance Document  |
| 101.SCH       | XBRL Taxonomy Extension Schema Document   |
| 101.CAL       | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB       | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE       | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF       | XBRL Taxonomy Extension Definition Linkbase Document  |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENWORTH FINANCIAL, INC.

(Registrant)

Date: October 31, 2018

By: /s/ Matthew D. Farney  
**Matthew D. Farney**

**Vice President and Controller**

**(Principal Accounting Officer)**