GENWORTH FINANCIAL INC
Form 10-Q
November 08, 2016
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2016**

**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** | **80-0873306** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification Number)** |
| **6620 West Broad Street Richmond, Virginia** | **23230** |
| **(Address of Principal Executive Offices)** | **(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 x No ¨

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

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

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

As of October 28, 2016, 498,369,894 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Amounts in millions, except per share amounts)**

| | September 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | $ 63,780 | $ 58,197 |
| Equity securities available-for-sale, at fair value | 590 | 310 |
| Commercial mortgage loans | 6,017 | 6,170 |
| Restricted commercial mortgage loans related to securitization entities | 134 | 161 |
| Policy loans | 1,751 | 1,568 |
| Other invested assets | 2,676 | 2,309 |
| Restricted other invested assets related to securitization entities, at fair value | 312 | 413 |
| Total investments | 75,260 | 69,128 |
| Cash and cash equivalents | 3,078 | 5,965 |
| Accrued investment income | 677 | 653 |
| Deferred acquisition costs | 3,982 | 4,398 |
| Intangible assets and goodwill | 258 | 357 |
| Reinsurance recoverable | 17,542 | 17,245 |
| Other assets | 570 | 520 |
| Deferred tax asset | | 155 |
| Separate account assets | 7,485 | 7,883 |
| Assets held for sale | | 127 |
| Total assets | $ 108,852 | $ 106,431 |
| Liabilities and equity | | |
| Liabilities: | | |
| Future policy benefits | $ 37,405 | $ 36,475 |
| Policyholder account balances | 25,867 | 26,209 |
| Liability for policy and contract claims | 8,869 | 8,095 |
| Unearned premiums | 3,464 | 3,308 |
| Other liabilities ($2 and $46 of other liabilities are related to securitization entities) | 3,280 | 3,004 |

| | | |
|---|---|---|
| Borrowings related to securitization entities ($11 and $81 are at fair value) | 78 | 179 |
| Non-recourse funding obligations | 310 | 1,920 |
| Long-term borrowings | 4,194 | 4,570 |
| Deferred tax liability | 1,151 | 24 |
| Separate account liabilities | 7,485 | 7,883 |
| Liabilities held for sale | | 127 |
| Total liabilities | 92,103 | 91,794 |
| Commitments and contingencies | | |
| Equity: | | |
| Class A common stock, $0.001 par value; 1.5 billion shares authorized; 587 million and 586 million shares issued as of September 30, 2016 and December 31, 2015, respectively; 498 million shares outstanding as of September 30, 2016 and December 31, 2015 | 1 | 1 |
| Additional paid-in capital | 11,959 | 11,949 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized investment gains (losses): | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 2,836 | 1,236 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 24 | 18 |
| Net unrealized investment gains (losses) | 2,860 | 1,254 |
| Derivatives qualifying as hedges | 2,493 | 2,045 |
| Foreign currency translation and other adjustments | (151) | (289) |
| Total accumulated other comprehensive income (loss) | 5,202 | 3,010 |
| Retained earnings | 409 | 564 |
| Treasury stock, at cost (88 million shares as of September 30, 2016 and December 31, 2015) | (2,700) | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 14,871 | 12,824 |
| Noncontrolling interests | 1,878 | 1,813 |
| Total equity | 16,749 | 14,637 |
| Total liabilities and equity | $ 108,852 | $ 106,431 |

See Notes to Condensed Consolidated Financial Statements

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**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(Amounts in millions, except per share amounts)**

**(Unaudited)**

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 1,108 | $ 1,145 | $ 3,029 | $ 3,422 |
| Net investment income | 805 | 783 | 2,373 | 2,357 |
| Net investment gains (losses) | 20 | (51) | 31 | (59) |
| Policy fees and other income | 217 | 223 | 738 | 672 |
| Total revenues | 2,150 | 2,100 | 6,171 | 6,392 |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 1,662 | 1,290 | 3,715 | 3,714 |
| Interest credited | 173 | 179 | 523 | 540 |
| Acquisition and operating expenses, net of deferrals | 269 | 314 | 990 | 876 |
| Amortization of deferred acquisition costs and intangibles | 94 | 563 | 305 | 759 |
| Interest expense | 77 | 105 | 262 | 315 |
| Total benefits and expenses | 2,275 | 2,451 | 5,795 | 6,204 |
| Income (loss) from continuing operations before income taxes | (125) | (351) | 376 | 188 |
| Provision (benefit) for income taxes | 222 | (134) | 355 | 27 |
| Income (loss) from continuing operations | (347) | (217) | 21 | 161 |
| Income (loss) from discontinued operations, net of taxes | 15 | (21) | (25) | (334) |
| Net loss | (332) | (238) | (4) | (173) |
| Less: net income attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (380) | $ (284) | $ (155) | $ (323) |
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |
| Diluted | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |

| | | | | |
|---|---|---|---|---|
| Net loss available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |
| Diluted | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |
| Weighted-average common shares outstanding: | | | | |
| Basic | 498.3 | 497.4 | 498.3 | 497.3 |
| Diluted | 498.3 | 497.4 | 498.3 | 499.0 |
| Supplemental disclosures: | | | | |
| Total other-than-temporary impairments | $ (2) | $ (10) | $ (35) | $ (13) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | | 1 |
| Net other-than-temporary impairments | (2) | (9) | (35) | (12) |
| Other investments gains (losses) | 22 | (42) | 66 | (47) |
| Total net investment gains (losses) | $ 20 | $ (51) | $ 31 | $ (59) |

See Notes to Condensed Consolidated Financial Statements

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**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Amounts in millions)**

**(Unaudited)**

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net loss | $ (332) | $ (238) | $ (4) | $ (173) |
| Other comprehensive income (loss), net of taxes: | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 72 | 87 | 1,624 | (728) |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 5 | | 6 | |
| Derivatives qualifying as hedges | 54 | 217 | 448 | 60 |
| Foreign currency translation and other adjustments | (1) | (302) | 223 | (619) |
| Total other comprehensive income (loss) | 130 | 2 | 2,301 | (1,287) |
| Total comprehensive income (loss) | (202) | (236) | 2,297 | (1,460) |
| Less: comprehensive income (loss) attributable to noncontrolling interests | 64 | (121) | 260 | (145) |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (266) | $ (115) | $ 2,037 | $ (1,315) |

See Notes to Condensed Consolidated Financial Statements

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**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(Amounts in millions)**

**(Unaudited)**

| | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | Treasury stock, at cost | Total Genworth Financial, Inc. s stockholders equity | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balances as of December 31, 2015 | $ 1 | $ 11,949 | $ 3,010 | $ 564 | $ (2,700) | $ 12,824 | $ 1,813 | $ 14,637 |
| Return of capital to noncontrolling interests | | | | | | | (70) | (70) |
| Comprehensive income (loss): | | | | | | | | |
| Net income (loss) | | | | (155) | | (155) | 151 | (4) |
| Other comprehensive income (loss), net of taxes | | | 2,192 | | | 2,192 | 109 | 2,301 |
| Total comprehensive income (loss) | | | | | | 2,037 | 260 | 2,297 |
| Dividends to noncontrolling interests | | | | | | | (126) | (126) |
| Stock-based compensation expense and exercises and other | | 10 | | | | 10 | 1 | 11 |
| Balances as of September 30, 2016 | $ 1 | $ 11,959 | $ 5,202 | $ 409 | $ (2,700) | $ 14,871 | $ 1,878 | $ 16,749 |
| Balances as of December 31, 2014 | $ 1 | $ 11,997 | $ 4,446 | $ 1,179 | $ (2,700) | $ 14,923 | $ 1,874 | $ 16,797 |
| Additional sale of subsidiary shares to noncontrolling interests | | (65) | 24 | | | (41) | 267 | 226 |
| Repurchase of subsidiary shares | | | | | | | (17) | (17) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Comprehensive income (loss): | | | | | | | | |
| Net income (loss) | | | | (323) | | (323) | 150 | (173) |
| Other comprehensive income (loss), net of taxes | | | (992) | | | (992) | (295) | (1,287) |
| Total comprehensive income (loss) | | | | | | (1,315) | (145) | (1,460) |
| Dividends to noncontrolling interests | | | | | | | (145) | (145) |
| Stock-based compensation expense and exercises and other | | 12 | | | | 12 | 3 | 15 |
| Balances as of September 30, 2015 | $ 1 | $ 11,944 | $ 3,478 | $ 856 | $ (2,700) | $ 13,579 | $ 1,837 | $ 15,416 |

See Notes to Condensed Consolidated Financial Statements

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**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Amounts in millions)**

**(Unaudited)**

| | Nine months ended September 30, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (4) | $ (173) |
| Less loss from discontinued operations, net of taxes | 25 | 334 |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Gain on sale of businesses | (26) | |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | (112) | (80) |
| Net investment losses (gains) | (31) | 59 |
| Charges assessed to policyholders | (574) | (586) |
| Acquisition costs deferred | (124) | (226) |
| Amortization of deferred acquisition costs and intangibles | 305 | 759 |
| Deferred income taxes | 173 | (117) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | 759 | (247) |
| Stock-based compensation expense | 25 | 14 |
| Change in certain assets and liabilities: | | |
| Accrued investment income and other assets | (258) | (133) |
| Insurance reserves | 691 | 1,270 |
| Current tax liabilities | 44 | (71) |
| Other liabilities, policy and contract claims and other policy-related balances | 905 | 352 |
| Cash from operating activities held for sale | | 3 |
| Net cash from operating activities | 1,798 | 1,158 |
| Cash flows from investing activities: | | |
| Proceeds from maturities and repayments of investments: | | |
| Fixed maturity securities | 2,646 | 3,389 |
| Commercial mortgage loans | 555 | 640 |
| Restricted commercial mortgage loans related to securitization entities | 27 | 27 |
| Proceeds from sales of investments: | | |
| Fixed maturity and equity securities | 4,064 | 1,333 |
| Purchases and originations of investments: | | |
| Fixed maturity and equity securities | (8,758) | (6,836) |
| Commercial mortgage loans | (405) | (678) |
| Other invested assets, net | (138) | (39) |

| | | |
|---|---|---|
| Policy loans, net | (80) | 23 |
| Proceeds from sale of businesses, net of cash transferred | 39 | |
| Cash from investing activities held for sale | | (22) |
| Net cash from investing activities | (2,050) | (2,163) |
| Cash flows from financing activities: | | |
| Deposits to universal life and investment contracts | 1,028 | 1,693 |
| Withdrawals from universal life and investment contracts | (1,463) | (1,677) |
| Redemption of non-recourse funding obligations | (1,620) | (45) |
| Proceeds from issuance of long-term debt | | 150 |
| Repayment and repurchase of long-term debt | (362) | (120) |
| Repayment of borrowings related to securitization entities | (37) | (26) |
| Proceeds from sale of subsidiary shares to noncontrolling interests | | 226 |
| Repurchase of subsidiary shares | | (17) |
| Return of capital to noncontrolling interests | (70) | |
| Dividends paid to noncontrolling interests | (126) | (145) |
| Other, net | (49) | (25) |
| Cash from financing activities held for sale | | (33) |
| Net cash from financing activities | (2,699) | (19) |
| Effect of exchange rate changes on cash and cash equivalents (includes $ and $(8) related to businesses held for sale) | 36 | (86) |
| Net change in cash and cash equivalents | (2,915) | (1,110) |
| Cash and cash equivalents at beginning of period | 5,993 | 4,918 |
| Cash and cash equivalents at end of period | 3,078 | 3,808 |
| Less cash and cash equivalents held for sale at end of period | | 142 |
| Cash and cash equivalents of continuing operations at end of period | $ 3,078 | $ 3,666 |

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 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.

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.

*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, funding agreements backing notes and guaranteed investment contracts.

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 May 9, 2016, Genworth Mortgage Insurance Corporation ( GMICO ), our wholly-owned indirect subsidiary, completed the sale of our European mortgage insurance business. As the held-for-sale criteria were

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

satisfied during the fourth quarter of 2015, our European mortgage insurance business, included in Corporate and Other activities, has been reported as held for sale and its financial position is separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 14 for additional information.

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 2015 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

On October 21, 2016, we entered into a definitive agreement with China Oceanwide Holdings Group Co., Ltd. ( China Oceanwide ) under which 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. The acquisition will be completed through Asia Pacific Global Capital Co. Ltd., one of China Oceanwide s investment platforms. The transaction is subject to approval by our stockholders as well as other closing conditions, including the receipt of required regulatory approvals.

## (2) Accounting Changes

*Accounting Pronouncement Recently Adopted*

On January 1, 2016, we adopted new accounting guidance related to consolidation. The new guidance primarily impacts limited partnerships and similar legal entities, evaluation of fees paid to a decision maker as a variable interest, the effect of fee arrangements and related parties on the primary beneficiary determination and certain investment funds. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

*Accounting Pronouncements Not Yet Adopted*

In September 2016, the Financial Accounting Standards Board (the FASB ) issued new guidance related to the statement of cash flows classification of certain cash payments and cash receipts. The guidance will reduce diversity in practice related to eight specific cash flow issues. The new guidance is effective for us on January 1, 2018, with early adoption permitted. We are in the process of determining the impact from this guidance on our consolidated financial statements.

In June 2016, the FASB issued new 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

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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, a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption will be recorded. We are in the process of determining the impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the accounting for stock compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for us on January 1, 2017, with early adoption permitted. We are in the process of determining the impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The guidance is effective for us on January 1, 2017, with early adoption permitted. We do not expect any significant impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the assessment of contingent put and call options in debt instruments. The guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The guidance is effective for us on January 1, 2017, with early adoption permitted. We are in the process of determining the impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the effect of derivative contract novations on existing hedge accounting relationships. The guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The guidance is effective for us on January 1, 2017, with early adoption permitted. This guidance is consistent with our accounting for derivative contract novations and, accordingly, we do not expect any impact 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. We are still in the process of evaluating the impact this guidance will have on our consolidated financial statements.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## (3) Earnings (Loss) Per Share

Basic and diluted earnings (loss) 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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Weighted-average common shares used in basic earnings (loss) per common share calculations | 498.3 | 497.4 | 498.3 | 497.3 |
| Potentially dilutive securities: | | | | |
| Stock options, restricted stock units and stock appreciation rights | | | | 1.7 |
| Weighted-average common shares used in diluted earnings (loss) per common share calculations (1) | 498.3 | 497.4 | 498.3 | 499.0 |
| Income (loss) from continuing operations: | | | | |
| Income (loss) from continuing operations | $ (347) | $ (217) | $ 21 | $ 161 |
| Less: income from continuing operations attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders | $ (395) | $ (263) | $ (130) | $ 11 |
| Basic per common share | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |
| Diluted per common share | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |
| Income (loss) from discontinued operations: | | | | |
| Income (loss) from discontinued operations, net of taxes | $ 15 | $ (21) | $ (25) | $ (334) |
| Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests | | | | |
| Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc. s common stockholders | $ 15 | $ (21) | $ (25) | $ (334) |
| Basic per common share | $ 0.03 | $ (0.04) | $ (0.05) | $ (0.67) |

| | | | | |
|---|---|---|---|---|
| Diluted per common share | $ 0.03 | $ (0.04) | $ (0.05) | $ (0.67) |
| Net loss: | | | | |
| Income (loss) from continuing operations | $ (347) | $ (217) | $ 21 | $ 161 |
| Income (loss) from discontinued operations, net of taxes | 15 | (21) | (25) | (334) |
| Net loss | (332) | (238) | (4) | (173) |
| Less: net income attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (380) | $ (284) | $ (155) | $ (323) |
| Basic per common share | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |
| Diluted per common share | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |

(1) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 2.2 million, 1.3 million and 1.8 million, respectively, would have been antidilutive to the calculation. If we had not incurred a loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, dilutive potential weighted-average common shares outstanding would have been 500.5 million, 498.7 million and 500.1 million, respectively.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## (4) Investments

*(a) Net Investment Income*

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

| (Amounts in millions) | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Fixed maturity securities taxable | $ 655 | $ 647 | $ 1,930 | $ 1,924 |
| Fixed maturity securities non-taxable | 3 | 3 | 9 | 9 |
| Commercial mortgage loans | 79 | 84 | 237 | 252 |
| Restricted commercial mortgage loans related to securitization entities | 3 | 3 | 8 | 10 |
| Equity securities | 8 | 3 | 20 | 11 |
| Other invested assets | 34 | 26 | 105 | 103 |
| Restricted other invested assets related to securitization entities | | 1 | 3 | 3 |
| Policy loans | 38 | 33 | 107 | 101 |
| Cash, cash equivalents and short-term investments | 5 | 3 | 16 | 10 |
| Gross investment income before expenses and fees | 825 | 803 | 2,435 | 2,423 |
| Expenses and fees | (20) | (20) | (62) | (66) |
| Net investment income | $ 805 | $ 783 | $ 2,373 | $ 2,357 |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*(b) Net Investment Gains (Losses)*

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

| **(Amounts in millions)** | **Three months ended September 30, 2016** | **Three months ended September 30, 2015** | **Nine months ended September 30, 2016** | **Nine months ended September 30, 2015** |
|---|---|---|---|---|
| Available-for-sale securities: | | | | |
| Realized gains | $ 39 | $ 14 | $ 205 | $ 49 |
| Realized losses | (24) | (18) | (75) | (36) |
| Net realized gains (losses) on available-for-sale securities | 15 | (4) | 130 | 13 |
| Impairments: | | | | |
| Total other-than-temporary impairments | (2) | (10) | (35) | (13) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | | 1 |
| Net other-than-temporary impairments | (2) | (9) | (35) | (12) |
| Trading securities | (4) | 12 | 40 | 2 |
| Commercial mortgage loans | (1) | 1 | 1 | 5 |
| Net gains (losses) related to securitization entities | 2 | (1) | (51) | 9 |
| Derivative instruments [1] | 10 | (53) | (52) | (79) |
| Contingent consideration adjustment | | 2 | (2) | 2 |
| Other | | 1 | | 1 |
| Net investment gains (losses) | $ 20 | $ (51) | $ 31 | $ (59) |

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

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended September 30, 2016 and 2015 was $293 million and $186 million, respectively, which was approximately 95% and 93%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2016 and 2015 was $833 million and $470 million, respectively, which was approximately 93% and 94%, respectively, of book value.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following represents the activity for credit losses recognized in net income (loss) 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 (loss) ( OCI ) as of and for the periods indicated:

| **(Amounts in millions)** | **As of or for the three months ended September 30, 2016** | **2015** | **As of or for the nine months ended September 30, 2016** | **2015** |
|---|---|---|---|---|
| Beginning balance | $ 62 | $ 75 | $ 64 | $ 83 |
| Additions: | | | | |
| Other-than-temporary impairments not previously recognized | | | 1 | |
| Reductions: | | | | |
| Securities sold, paid down or disposed | (8) | (9) | (11) | (17) |
| Ending balance | $ 54 | $ 66 | $ 54 | $ 66 |

*(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, 2016** | **December 31, 2015** |
|---|---|---|
| Net unrealized gains (losses) on investment securities: | | |
| Fixed maturity securities | $ 6,621 | $ 3,140 |
| Equity securities | (2) | (10) |
| Subtotal | 6,619 | 3,130 |
| Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves | (2,045) | (1,070) |
| Income taxes, net | (1,595) | (711) |
| Net unrealized investment gains (losses) | 2,979 | 1,349 |
| Less: net unrealized investment gains (losses) attributable to noncontrolling interests | 119 | 95 |
| | $ 2,860 | $ 1,254 |

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

**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:

| | As of or for the three months ended September 30, | |
|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** |
| Beginning balance | $ 2,789 | $ 1,628 |
| Unrealized gains (losses) arising during the period: | | |
| Unrealized gains (losses) on investment securities | 228 | 70 |
| Adjustment to deferred acquisition costs | (17) | 32 |
| Adjustment to present value of future profits | 3 | (5) |
| Adjustment to sales inducements | (6) | 9 |
| Adjustment to benefit reserves | (81) | 23 |
| Provision for income taxes | (41) | (50) |
| Change in unrealized gains (losses) on investment securities | 86 | 79 |
| Reclassification adjustments to net investment (gains) losses, net of taxes of $4 and $(5) | (9) | 8 |
| Change in net unrealized investment gains (losses) | 77 | 87 |
| Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests | 6 | (16) |
| Ending balance | $ 2,860 | $ 1,731 |

| | As of or for the nine months ended September 30, | |
|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** |
| Beginning balance | $ 1,254 | $ 2,453 |
| Unrealized gains (losses) arising during the period: | | |
| Unrealized gains (losses) on investment securities | 3,584 | (1,393) |
| Adjustment to deferred acquisition costs | (291) | 102 |
| Adjustment to present value of future profits | (26) | 45 |
| Adjustment to sales inducements | (46) | 12 |
| Adjustment to benefit reserves | (612) | 111 |

| | | |
|---|---|---|
| Provision for income taxes | (917) | 396 |
| Change in unrealized gains (losses) on investment securities | 1,692 | (727) |
| Reclassification adjustments to net investment (gains) losses, net of taxes of $33 and $ | (62) | (1) |
| Change in net unrealized investment gains (losses) | 1,630 | (728) |
| Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests | 24 | (6) |
| Ending balance | $ 2,860 | $ 1,731 |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*(d) Fixed Maturity and Equity Securities*

As of September 30, 2016, 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:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Amortized cost or cost** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Fair value** |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5,416 | $ 1,288 | $ | $ (1) | $ | $ 6,703 |
| State and political subdivisions | 2,491 | 350 | | (17) | | 2,824 |
| Non-U.S. government | 2,052 | 175 | | | | 2,227 |
| U.S. corporate: | | | | | | |
| Utilities | 4,073 | 678 | | (2) | | 4,749 |
| Energy | 2,124 | 177 | | (22) | | 2,279 |
| Finance and insurance | 5,711 | 615 | 23 | (9) | | 6,340 |
| Consumer non-cyclical | 4,190 | 689 | | (1) | | 4,878 |
| Technology and communications | 2,486 | 248 | | (8) | | 2,726 |
| Industrial | 1,181 | 114 | | (4) | | 1,291 |
| Capital goods | 1,876 | 319 | | | | 2,195 |
| Consumer cyclical | 1,506 | 158 | | (4) | | 1,660 |
| Transportation | 1,077 | 138 | | | | 1,215 |
| Other | 335 | 27 | | | | 362 |
| Total U.S. corporate | 24,559 | 3,163 | 23 | (50) | | 27,695 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 899 | 64 | | (2) | | 961 |
| Energy | 1,281 | 129 | | (15) | | 1,395 |
| Finance and insurance | 2,458 | 201 | | (1) | | 2,658 |
| Consumer non-cyclical | 768 | 55 | | (1) | | 822 |
| Technology and communications | 968 | 80 | | (1) | | 1,047 |
| Industrial | 955 | 68 | | (5) | | 1,018 |
| Capital goods | 545 | 36 | | (1) | | 580 |
| Consumer cyclical | 490 | 15 | | | | 505 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Transportation | 605 | 81 | | (3) | | 683 |
| Other | 3,039 | 305 | | (5) | | 3,339 |
| Total non-U.S. corporate | 12,008 | 1,034 | | (34) | | 13,008 |
| Residential mortgage-backed | 4,418 | 396 | 11 | (2) | | 4,823 |
| Commercial mortgage-backed | 2,983 | 192 | 2 | (4) | | 3,173 |
| Other asset-backed | 3,324 | 28 | 1 | (26) | | 3,327 |
| Total fixed maturity securities | 57,251 | 6,626 | 37 | (134) | | 63,780 |
| Equity securities | 599 | 26 | | (35) | | 590 |
| Total available-for-sale securities | $ 57,850 | $ 6,652 | $ 37 | $ (169) | $ | $ 64,370 |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

As of December 31, 2015, 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:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Amortized cost or cost** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Fair value** |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5,487 | $ 732 | $ | $ (16) | $ | $ 6,203 |
| State and political subdivisions | 2,287 | 181 | | (30) | | 2,438 |
| Non-U.S. government | 1,910 | 110 | | (5) | | 2,015 |
| U.S. corporate: | | | | | | |
| Utilities | 3,355 | 364 | | (26) | | 3,693 |
| Energy | 2,560 | 103 | | (162) | | 2,501 |
| Finance and insurance | 5,268 | 392 | 15 | (43) | | 5,632 |
| Consumer non-cyclical | 3,755 | 371 | | (30) | | 4,096 |
| Technology and communications | 2,108 | 123 | | (38) | | 2,193 |
| Industrial | 1,164 | 53 | | (44) | | 1,173 |
| Capital goods | 1,774 | 188 | | (12) | | 1,950 |
| Consumer cyclical | 1,602 | 95 | | (22) | | 1,675 |
| Transportation | 1,023 | 75 | | (12) | | 1,086 |
| Other | 385 | 22 | | (5) | | 402 |
| Total U.S. corporate | 22,994 | 1,786 | 15 | (394) | | 24,401 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 815 | 37 | | (9) | | 843 |
| Energy | 1,700 | 64 | | (78) | | 1,686 |
| Finance and insurance | 2,327 | 152 | 2 | (8) | | 2,473 |
| Consumer non-cyclical | 746 | 24 | | (18) | | 752 |
| Technology and communications | 978 | 36 | | (26) | | 988 |
| Industrial | 1,063 | 19 | | (96) | | 986 |
| Capital goods | 602 | 19 | | (17) | | 604 |
| Consumer cyclical | 522 | 8 | | (4) | | 526 |
| Transportation | 559 | 52 | | (6) | | 605 |
| Other | 2,574 | 187 | | (25) | | 2,736 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-U.S. corporate | 11,886 | 598 | 2 | (287) | | 12,199 |
| Residential mortgage-backed | 4,777 | 330 | 11 | (17) | | 5,101 |
| Commercial mortgage-backed | 2,492 | 84 | 3 | (20) | | 2,559 |
| Other asset-backed | 3,328 | 11 | 1 | (59) | | 3,281 |
| Total fixed maturity securities | 55,161 | 3,832 | 32 | (828) | | 58,197 |
| Equity securities | 325 | 8 | | (23) | | 310 |
| Total available-for-sale securities | $ 55,486 | $ 3,840 | $ 32 | $ (851) | $ | $ 58,507 |

**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 September 30, 2016:

| | Less than 12 months | | | 12 months or more | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 300 | $ (1) | 6 | $ | $ | | $ 300 | $ (1) | 6 |
| State and political subdivisions | 92 | (1) | 14 | 143 | (16) | 12 | 235 | (17) | 26 |
| U.S. corporate | 808 | (18) | 120 | 693 | (32) | 104 | 1,501 | (50) | 224 |
| Non-U.S. corporate | 261 | (6) | 48 | 414 | (28) | 56 | 675 | (34) | 104 |
| Residential mortgage-backed | 67 | (1) | 22 | 57 | (1) | 30 | 124 | (2) | 52 |
| Commercial mortgage-backed | 234 | (3) | 34 | 27 | (1) | 10 | 261 | (4) | 44 |
| Other asset-backed | 433 | (4) | 70 | 356 | (22) | 68 | 789 | (26) | 138 |
| Subtotal, fixed maturity securities | 2,195 | (34) | 314 | 1,690 | (100) | 280 | 3,885 | (134) | 594 |
| Equity securities | 94 | (5) | 191 | 123 | (30) | 47 | 217 | (35) | 238 |
| Total for securities in an unrealized loss position | $ 2,289 | $ (39) | 505 | $ 1,813 | $ (130) | 327 | $ 4,102 | $ (169) | 832 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 2,195 | $ (34) | 314 | $ 1,604 | $ (69) | 270 | $ 3,799 | $ (103) | 584 |
| 20%-50% Below cost | | | | 86 | (31) | 10 | 86 | (31) | 10 |
| Total fixed maturity securities | 2,195 | (34) | 314 | 1,690 | (100) | 280 | 3,885 | (134) | 594 |
| % Below cost equity securities: | | | | | | | | | |
| <20% Below cost | 93 | (4) | 181 | 55 | (10) | 22 | 148 | (14) | 203 |
| 20%-50% Below cost | 1 | (1) | 10 | 68 | (20) | 25 | 69 | (21) | 35 |
| Total equity securities | 94 | (5) | 191 | 123 | (30) | 47 | 217 | (35) | 238 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total for securities in an unrealized loss position | $ 2,289 | $ (39) | 505 | $ 1,813 | $ (130) | 327 | $ 4,102 | $ (169) | 832 |
| Investment grade | $ 2,098 | $ (25) | 297 | $ 1,351 | $ (100) | 245 | $ 3,449 | $ (125) | 542 |
| Below investment grade | 191 | (14) | 208 | 462 | (30) | 82 | 653 | (44) | 290 |
| Total for securities in an unrealized loss position | $ 2,289 | $ (39) | 505 | $ 1,813 | $ (130) | 327 | $ 4,102 | $ (169) | 832 |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of September 30, 2016:

| (Dollar amounts in millions) | Less than 12 months Fair value | Less than 12 months Gross unrealized losses | Less than 12 months Number of securities | 12 months or more Fair value | 12 months or more Gross unrealized losses | 12 months or more Number of securities | Total Fair value | Total Gross unrealized losses | Total Number of securities |
|---|---|---|---|---|---|---|---|---|---|
| **Description of Securities** | | | | | | | | | |
| U.S. corporate: | | | | | | | | | |
| Utilities | $ 113 | $ (1) | 22 | $ 23 | $ (1) | 4 | $ 136 | $ (2) | 26 |
| Energy | 112 | (7) | 13 | 290 | (15) | 46 | 402 | (22) | 59 |
| Finance and insurance | 227 | (3) | 32 | 108 | (6) | 16 | 335 | (9) | 48 |
| Consumer non-cyclical | 108 | (1) | 15 | | | | 108 | (1) | 15 |
| Technology and communications | 101 | (2) | 15 | 138 | (6) | 19 | 239 | (8) | 34 |
| Industrial | 34 | (1) | 6 | 108 | (3) | 13 | 142 | (4) | 19 |
| Consumer cyclical | 113 | (3) | 17 | 26 | (1) | 6 | 139 | (4) | 23 |
| Subtotal, U.S. corporate securities | 808 | (18) | 120 | 693 | (32) | 104 | 1,501 | (50) | 224 |
| Non-U.S. corporate: | | | | | | | | | |
| Utilities | 16 | (1) | 2 | 14 | (1) | 1 | 30 | (2) | 3 |
| Energy | 72 | (1) | 11 | 122 | (14) | 22 | 194 | (15) | 33 |
| Finance and insurance | 72 | (1) | 15 | | | | 72 | (1) | 15 |
| Consumer non-cyclical | 49 | (1) | 5 | | | | 49 | (1) | 5 |
| Technology and communications | | | | 28 | (1) | 3 | 28 | (1) | 3 |
| Industrial | 26 | (1) | 6 | 103 | (4) | 15 | 129 | (5) | 21 |
| Capital goods | | | | 34 | (1) | 3 | 34 | (1) | 3 |
| Transportation | | | | 49 | (3) | 4 | 49 | (3) | 4 |
| Other | 26 | (1) | 9 | 64 | (4) | 8 | 90 | (5) | 17 |
| Subtotal, non-U.S. corporate securities | 261 | (6) | 48 | 414 | (28) | 56 | 675 | (34) | 104 |
| Total for corporate securities in an unrealized loss position | $ 1,069 | $ (24) | 168 | $ 1,107 | $ (60) | 160 | $ 2,176 | $ (84) | 328 |

As indicated in the tables above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to increased market volatility, mostly concentrated in our corporate securities. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 2% as of September 30, 2016.

*Fixed Maturity Securities In A Continuous Unrealized Loss Position For 12 Months Or More*

Of the $69 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was BBB- and approximately 65% of the unrealized losses were related to investment grade securities as of September 30, 2016. These unrealized losses were predominantly attributable to corporate securities including variable rate securities purchased in a higher rate and lower spread environment. The average fair value percentage below cost for these

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

securities was approximately 4% as of September 30, 2016. See below for additional discussion related to fixed maturity securities that have been in a continuous unrealized loss position for 12 months or more with a fair value that was more than 20% below cost.

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous unrealized loss position for 12 months or more by asset class as of September 30, 2016:

| | Investment Grade | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 20% to 50% | | | | Greater than 50% | | | |
| (Dollar amounts in millions) | Fair value | Gross unrealized losses | % of total gross unrealized losses | Number of securities | Fair value | Gross unrealized losses | % of total gross unrealized losses | Number of securities |
| Fixed maturity securities: | | | | | | | | |
| State and political subdivisions | $ 9 | $ (3) | 2% | 1 | $ | $ | % | |
| U.S. corporate: | | | | | | | | |
| Energy | 13 | (4) | 2 | 1 | | | | |
| Finance and insurance | 12 | (3) | 2 | 1 | | | | |
| Total U.S. corporate | 25 | (7) | 4 | 2 | | | | |
| Structured securities: | | | | | | | | |
| Other asset-backed | 43 | (17) | 10 | 4 | | | | |
| Total structured securities | 43 | (17) | 10 | 4 | | | | |
| Total | $ 77 | $ (27) | 16% | 7 | $ | $ | % | |

| | Below Investment Grade | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 20% to 50% | | | | Greater than 50% | | | |
| (Dollar amounts in millions) | Fair value | Gross unrealized losses | % of total gross unrealized | Number of securities | Fair value | Gross unrealized losses | % of total gross unrealized | Number of securities |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | **losses** | | | | **losses** | |
| Fixed maturity securities: | | | | | | | |
| U.S. corporate: | | | | | | | |
| Energy | $ 4 | $ (2) | 1% | 1 | $ | $ | % |
| Total U.S. corporate | 4 | (2) | 1 | 1 | | | |
| Non-U.S. corporate: | | | | | | | |
| Energy | 3 | (1) | 1 | 1 | | | |
| Total non-U.S. corporate | 3 | (1) | 1 | 1 | | | |
| Structured securities: | | | | | | | |
| Other asset-backed | 2 | (1) | 1 | 1 | | | |
| Total structured securities | 2 | (1) | 1 | 1 | | | |
| Total | $ 9 | $ (4) | 3% | 3 | $ | $ | % |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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. See below for further discussion of gross unrealized losses by asset class.

*U.S. corporate*

As indicated above, $9 million of gross unrealized losses were related to U.S. corporate fixed maturity securities that have been in an unrealized loss position for more than 12 months and were more than 20% below cost. Of the total unrealized losses for U.S. corporate fixed maturity securities, $6 million, or 67%, related to the energy sector and $3 million, or 33%, related to the finance and insurance sector. Ongoing low oil prices and market volatility adversely impacted the fair value of these securities.

We expect that our investments in U.S. corporate securities will continue to perform in accordance with our expectations about the amount and timing of estimated cash flows. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in U.S. corporate securities may perform worse than current expectations. Such events may lead us to recognize write-downs within our portfolio of U.S. corporate securities in the future.

*Structured Securities*

Of the $18 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, none related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

While we consider the length of time each security had been in an unrealized loss position, the extent of the unrealized loss position and any significant declines in fair value subsequent to the balance sheet date in our evaluation of impairment for each of these individual securities, the primary factor in our evaluation of impairment is the expected performance for each of these securities. Our evaluation of expected performance is based on the historical performance of the associated securitization trust as well as the historical performance of the underlying collateral. Our examination of the historical performance of the securitization trust included consideration of the following factors for each class of securities issued by the trust: (i) the payment history, including failure to make scheduled payments; (ii) current payment status; (iii) current and historical outstanding balances; (iv) current levels of subordination and losses incurred to date; and (v) characteristics of the underlying collateral. Our examination of the historical performance of the underlying collateral included: (i) historical default rates, delinquency rates, voluntary and involuntary prepayments and severity of losses, including recent trends in this information; (ii) current payment status; (iii) loan to collateral value ratios, as applicable; (iv) vintage; and (v) other underlying characteristics such as current financial condition.

We use our assessment of the historical performance of both the securitization trust and the underlying collateral for each security, along with third-party sources, when available, to develop our best estimate of cash flows expected to be collected. These estimates reflect projections for future delinquencies, prepayments,

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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defaults and losses for the assets that collateralize the securitization trust and are used to determine the expected cash flows for our security, based on the payment structure of the trust. Our projection of expected cash flows is primarily based on the expected performance of the underlying assets that collateralize the securitization trust and is not directly impacted by the rating of our security. While we consider the rating of the security as an indicator of the financial condition of the issuer, this factor does not have a significant impact on our expected cash flows for each security. In limited circumstances, our expected cash flows include expected payments from reliable financial guarantors where we believe the financial guarantor will have sufficient assets to pay claims under the financial guarantee when the cash flows from the securitization trust are not sufficient to make scheduled payments. We then discount the expected cash flows using the effective yield of each security to determine the present value of expected cash flows.

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of September 30, 2016.

Despite the considerable analysis and rigor employed on our structured securities, it is reasonably possible that the underlying collateral of these investments may perform worse than current market expectations. Such events may lead to adverse changes in cash flows on our holdings of structured securities and future write-downs within our portfolio of structured securities.

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**(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, 2015:

| | **Less than 12 months** | | | **12 months or more** | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 883 | $ (16) | 32 | $ | $ | | $ 883 | $ (16) | 32 |
| State and political subdivisions | 464 | (15) | 81 | 163 | (15) | 17 | 627 | (30) | 98 |
| Non-U.S. government | 366 | (5) | 49 | | | | 366 | (5) | 49 |
| U.S. corporate | 5,836 | (332) | 817 | 466 | (62) | 83 | 6,302 | (394) | 900 |
| Non-U.S. corporate | 3,016 | (170) | 400 | 486 | (117) | 87 | 3,502 | (287) | 487 |
| Residential mortgage-backed | 756 | (10) | 88 | 103 | (7) | 38 | 859 | (17) | 126 |
| Commercial mortgage-backed | 780 | (19) | 116 | 39 | (1) | 13 | 819 | (20) | 129 |
| Other asset-backed | 1,944 | (22) | 349 | 336 | (37) | 55 | 2,280 | (59) | 404 |
| Subtotal, fixed maturity securities | 14,045 | (589) | 1,932 | 1,593 | (239) | 293 | 15,638 | (828) | 2,225 |
| Equity securities | 153 | (23) | 64 | | | | 153 | (23) | 64 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 13,726 | $ (472) | 1,877 | $ 1,259 | $ (78) | 238 | $ 14,985 | $ (550) | 2,115 |
| 20%-50% Below cost | 319 | (116) | 54 | 316 | (139) | 50 | 635 | (255) | 104 |
| >50% Below cost | | (1) | 1 | 18 | (22) | 5 | 18 | (23) | 6 |
| Total fixed maturity securities | 14,045 | (589) | 1,932 | 1,593 | (239) | 293 | 15,638 | (828) | 2,225 |
| % Below cost equity securities: | | | | | | | | | |
| <20% Below cost | 133 | (18) | 56 | | | | 133 | (18) | 56 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 20%-50% Below cost | 20 | (5) | 8 | | | | 20 | (5) | 8 |
| Total equity securities | 153 | (23) | 64 | | | | 153 | (23) | 64 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |
| Investment grade | $ 13,342 | $ (524) | 1,834 | $ 1,245 | $ (135) | 225 | $ 14,587 | $ (659) | 2,059 |
| Below investment grade | 856 | (88) | 162 | 348 | (104) | 68 | 1,204 | (192) | 230 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |

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**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, 2015:

| | Less than 12 months | | | 12 months or more | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** |
| **Description of Securities** | | | | | | | | | |
| U.S. corporate: | | | | | | | | | |
| Utilities | $ 485 | $ (25) | 74 | $ 14 | $ (1) | 7 | $ 499 | $ (26) | 81 |
| Energy | 1,162 | (134) | 163 | 131 | (28) | 22 | 1,293 | (162) | 185 |
| Finance and insurance | 1,142 | (35) | 160 | 94 | (8) | 15 | 1,236 | (43) | 175 |
| Consumer non-cyclical | 836 | (26) | 107 | 51 | (4) | 10 | 887 | (30) | 117 |
| Technology and communications | 658 | (36) | 95 | 23 | (2) | 5 | 681 | (38) | 100 |
| Industrial | 476 | (33) | 64 | 44 | (11) | 9 | 520 | (44) | 73 |
| Capital goods | 293 | (10) | 48 | 26 | (2) | 4 | 319 | (12) | 52 |
| Consumer cyclical | 427 | (18) | 60 | 63 | (4) | 10 | 490 | (22) | 70 |
| Transportation | 273 | (10) | 38 | 20 | (2) | 1 | 293 | (12) | 39 |
| Other | 84 | (5) | 8 | | | | 84 | (5) | 8 |
| Subtotal, U.S. corporate securities | 5,836 | (332) | 817 | 466 | (62) | 83 | 6,302 | (394) | 900 |
| Non-U.S. corporate: | | | | | | | | | |
| Utilities | 130 | (6) | 20 | 32 | (3) | 6 | 162 | (9) | 26 |
| Energy | 589 | (48) | 71 | 127 | (30) | 20 | 716 | (78) | 91 |
| Finance and insurance | 478 | (7) | 77 | 30 | (1) | 8 | 508 | (8) | 85 |
| Consumer non-cyclical | 261 | (14) | 27 | 37 | (4) | 4 | 298 | (18) | 31 |
| Technology and communications | 324 | (15) | 37 | 33 | (11) | 9 | 357 | (26) | 46 |
| Industrial | 495 | (54) | 67 | 110 | (42) | 18 | 605 | (96) | 85 |
| Capital goods | 154 | (8) | 22 | 41 | (9) | 9 | 195 | (17) | 31 |
| Consumer cyclical | 155 | (4) | 20 | | | | 155 | (4) | 20 |
| Transportation | 147 | (6) | 17 | | | | 147 | (6) | 17 |
| Other | 283 | (8) | 42 | 76 | (17) | 13 | 359 | (25) | 55 |
| Subtotal, non-U.S. corporate securities | 3,016 | (170) | 400 | 486 | (117) | 87 | 3,502 | (287) | 487 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total for corporate securities in an unrealized loss position | $ 8,852 | $ (502) | 1,217 | $ 952 | $ (179) | 170 | $ 9,804 | $ (681) | 1,387 |

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**(Unaudited)**

The scheduled maturity distribution of fixed maturity securities as of September 30, 2016 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

| (Amounts in millions) | Amortized cost or cost | Fair value |
|---|---|---|
| Due one year or less | $ 1,752 | $ 1,775 |
| Due after one year through five years | 10,704 | 11,309 |
| Due after five years through ten years | 12,300 | 13,129 |
| Due after ten years | 21,770 | 26,244 |
| Subtotal | 46,526 | 52,457 |
| Residential mortgage-backed | 4,418 | 4,823 |
| Commercial mortgage-backed | 2,983 | 3,173 |
| Other asset-backed | 3,324 | 3,327 |
| Total | $ 57,251 | $ 63,780 |

As of September 30, 2016, $10,260 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2016, securities issued by finance and insurance, utilities and consumer non-cyclical 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, 2016, 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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**(Unaudited)**

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

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Property type: | | | | |
| Retail | $ 2,099 | 35% | $ 2,116 | 34% |
| Industrial | 1,544 | 26 | 1,562 | 25 |
| Office | 1,421 | 23 | 1,516 | 24 |
| Apartments | 449 | 7 | 465 | 8 |
| Mixed use | 232 | 4 | 234 | 4 |
| Other | 287 | 5 | 294 | 5 |
| Subtotal | 6,032 | 100% | 6,187 | 100% |
| Unamortized balance of loan origination fees and costs | (2) | | (2) | |
| Allowance for losses | (13) | | (15) | |
| Total | $ 6,017 | | $ 6,170 | |

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Geographic region: | | | | |
| Pacific | $ 1,563 | 27% | $ 1,581 | 26% |
| South Atlantic | 1,506 | 25 | 1,574 | 25 |
| Middle Atlantic | 886 | 15 | 890 | 14 |
| Mountain | 549 | 9 | 585 | 10 |
| West North Central | 443 | 7 | 416 | 7 |
| East North Central | 382 | 6 | 386 | 6 |
| West South Central | 305 | 5 | 294 | 5 |
| New England | 208 | 3 | 268 | 4 |

| | | | | |
|---|---|---|---|---|
| East South Central | 190 | 3 | 193 | 3 |
| Subtotal | 6,032 | 100% | 6,187 | 100% |
| Unamortized balance of loan origination fees and costs | (2) | | (2) | |
| Allowance for losses | (13) | | (15) | |
| Total | $ 6,017 | | $ 6,170 | |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| | September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 31 - 60 days past due | 61 - 90 days past due | Greater than 90 days past due | Total past due | Current | Total |
| Property type: | | | | | | |
| Retail | $ | $ | $ 5 | $ 5 | $ 2,094 | $ 2,099 |
| Industrial | | | 12 | 12 | 1,532 | 1,544 |
| Office | | | 4 | 4 | 1,417 | 1,421 |
| Apartments | | | | | 449 | 449 |
| Mixed use | | | | | 232 | 232 |
| Other | | | | | 287 | 287 |
| Total recorded investment | $ | $ | $ 21 | $ 21 | $ 6,011 | $ 6,032 |
| % of total commercial mortgage loans | % | % | % | % | 100% | 100% |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 31 - 60 days past due | 61 - 90 days past due | Greater than 90 days past due | Total past due | Current | Total |
| Property type: | | | | | | |
| Retail | $ | $ | $ | $ | $ 2,116 | $ 2,116 |
| Industrial | | | | | 1,562 | 1,562 |
| Office | 6 | | 5 | 11 | 1,505 | 1,516 |
| Apartments | | | | | 465 | 465 |
| Mixed use | | | | | 234 | 234 |
| Other | | | | | 294 | 294 |
| Total recorded investment | $ 6 | $ | $ 5 | $ 11 | $ 6,176 | $ 6,187 |
| % of total commercial mortgage loans | % | % | % | % | 100% | 100% |

As of September 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of September 30, 2016, our commercial mortgage loans greater than 90 days past due included loans with appraised values in excess of the recorded investment and the current recorded investment of the loans was expected to be recoverable.

During the nine months ended September 30, 2016 and the year ended December 31, 2015, we modified or extended 10 and 21 commercial mortgage loans, respectively, with a total carrying value of $63 million and $110 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower, but one loan with a carrying value $1 million at the time of modification was considered a troubled debt restructuring. This loan was impaired in the third quarter and the recorded investment was less than $1 million as of September 30, 2016.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| (Amounts in millions) | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Allowance for credit losses: | | | | |
| Beginning balance | $ 13 | $ 18 | $ 15 | $ 22 |
| Charge-offs | | (1) | (4) | (4) |
| Provision | | | 2 | (1) |
| Ending balance | $ 13 | $ 17 | $ 13 | $ 17 |
| Ending allowance for individually impaired loans | $ | $ | $ | $ |
| Ending allowance for loans not individually impaired that were evaluated collectively for impairment | $ 13 | $ 17 | $ 13 | $ 17 |
| Recorded investment: | | | | |
| Ending balance | $ 6,032 | $ 6,151 | $ 6,032 | $ 6,151 |
| Ending balance of individually impaired loans | $ 17 | $ 19 | $ 17 | $ 19 |
| Ending balance of loans not individually impaired that were evaluated collectively for impairment | $ 6,015 | $ 6,132 | $ 6,015 | $ 6,132 |

As of September 30, 2016, we had individually impaired commercial mortgage loans included within the retail property type with a recorded investment of $5 million, an unpaid principal balance of $7 million, charge-offs of $2 million and an average recorded investment of $3 million.

As of December 31, 2015, we had an individually impaired commercial mortgage loan included within the industrial property type with a recorded investment of $14 million, an unpaid principal balance of $15 million and charge-offs of $1 million, which were recorded in the first quarter of 2014. As of December 31, 2015, this loan had interest income of $1 million. In the second quarter of 2016, we recorded additional charge-offs of $2 million related to this loan. As of September 30, 2016, the individually impaired loan within the industrial property type had a recorded investment of $12 million, an unpaid principal balance of $15 million and total charge-offs of $3 million.

As of December 31, 2015, we had an individually impaired commercial mortgage loan included within the office property type with a recorded investment of $5 million, an unpaid principal balance of $6 million and charge-offs of $1 million, which were recorded in the third quarter of 2015.

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

**GENWORTH FINANCIAL, INC.**

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recovered in the event of default by the borrower if the property was sold. The debt service coverage ratio is based on normalized annual net operating 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 should not be 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.

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

| | September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **0% - 50%** | **51% - 60%** | **61% - 75%** | **76% - 100%** | **Greater than 100%** [1] | **Total** |
| Property type: | | | | | | |
| Retail | $ 763 | $ 495 | $ 812 | $ 29 | $ | $ 2,099 |
| Industrial | 631 | 436 | 451 | 24 | 2 | 1,544 |
| Office | 420 | 315 | 645 | 31 | 10 | 1,421 |
| Apartments | 194 | 75 | 175 | 5 | | 449 |
| Mixed use | 68 | 88 | 76 | | | 232 |
| Other | 61 | 30 | 196 | | | 287 |
| Total recorded investment | $ 2,137 | $ 1,439 | $ 2,355 | $ 89 | $ 12 | $ 6,032 |
| % of total | 36% | 24% | 39% | 1% | % | 100% |
| Weighted-average debt service coverage ratio | 2.22 | 1.87 | 1.61 | 0.91 | 0.07 | 1.87 |

(1) Included $12 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 112%.

**December 31, 2015**

| (Amounts in millions) | 0% - 50% | 51% - 60% | 61% - 75% | 76% - 100% | Greater than 100% [1] | Total |
|---|---|---|---|---|---|---|
| Property type: | | | | | | |
| Retail | $ 785 | $ 417 | $ 800 | $ 103 | $ 11 | $ 2,116 |
| Industrial | 515 | 478 | 499 | 65 | 5 | 1,562 |
| Office | 493 | 341 | 580 | 83 | 19 | 1,516 |
| Apartments | 196 | 66 | 182 | 21 | | 465 |
| Mixed use | 56 | 48 | 124 | 3 | 3 | 234 |
| Other | 54 | 55 | 185 | | | 294 |
| Total recorded investment | $ 2,099 | $ 1,405 | $ 2,370 | $ 275 | $ 38 | $ 6,187 |
| % of total | 34% | 23% | 38% | 4% | 1% | 100% |
| Weighted-average debt service coverage ratio | 2.13 | 1.82 | 1.57 | 1.12 | 0.55 | 1.79 |

[1] Included $38 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 123%.

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**(Unaudited)**

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

| | September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Less than 1.00** | **1.00 - 1.25** | **1.26 - 1.50** | **1.51 - 2.00** | **Greater than 2.00** | **Total** |
| Property type: | | | | | | |
| Retail | $ 73 | $ 200 | $ 420 | $ 827 | $ 579 | $ 2,099 |
| Industrial | 86 | 126 | 246 | 578 | 508 | 1,544 |
| Office | 103 | 79 | 172 | 620 | 447 | 1,421 |
| Apartments | 19 | 19 | 43 | 216 | 152 | 449 |
| Mixed use | 2 | 9 | 20 | 113 | 88 | 232 |
| Other | 1 | 148 | 57 | 58 | 23 | 287 |
| Total recorded investment | $ 284 | $ 581 | $ 958 | $ 2,412 | $ 1,797 | $ 6,032 |
| % of total | 5% | 10% | 15% | 40% | 30% | 100% |
| Weighted-average loan-to-value | 64% | 62% | 60% | 57% | 45% | 55% |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Less than 1.00** | **1.00 - 1.25** | **1.26 - 1.50** | **1.51 - 2.00** | **Greater than 2.00** | **Total** |
| Property type: | | | | | | |
| Retail | $ 67 | $ 221 | $ 433 | $ 882 | $ 513 | $ 2,116 |
| Industrial | 94 | 181 | 208 | 672 | 407 | 1,562 |
| Office | 85 | 114 | 265 | 699 | 346 | 1,509 |
| Apartments | 6 | 41 | 74 | 199 | 145 | 465 |
| Mixed use | 3 | 11 | 28 | 135 | 57 | 234 |
| Other | | 58 | 146 | 60 | 30 | 294 |
| Total recorded investment | $ 255 | $ 626 | $ 1,154 | $ 2,647 | $ 1,498 | $ 6,180 |
| % of total | 4% | 10% | 19% | 43% | 24% | 100% |
| Weighted-average loan-to-value | 74% | 64% | 58% | 58% | 43% | 56% |

As of September 30, 2016, we did not have any floating rate commercial mortgage loans. As of December 31, 2015, we had floating rate commercial mortgage loans of $7 million.

*(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) Restricted Other Invested Assets Related To Securitization Entities*

We have consolidated securitization entities that hold certain investments that are recorded as restricted other invested assets related to securitization entities. The consolidated securitization entities hold certain investments as trading securities and whereby the changes in fair value are recorded in current period income (loss). The trading securities comprise asset-backed securities, including highly rated bonds that are primarily backed by credit card receivables.

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In June 2016, we amended and exercised a clean-up call on our consolidated securitization entity writing off our residual interest and settling the outstanding debt of $70 million. As a result of this transaction, we recorded $64 million of realized investment losses related to the write-off of our residual interest in those entities and a $64 million gain related to the early extinguishment of debt which was included in other income. There was no impact to net income.

In addition, the policy loan securitization entities in which we previously held a residual interest were not required to be consolidated in our balance sheets. In June 2016, we repurchased $134 million of policy loans from those entities. The policy loans are now included in our consolidated balance sheet.

*(h) Limited Partnerships or Similar Entities*

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, 2016 and December 31, 2015, the total carrying value of these investments was $171 million and $165 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:

| | Derivative assets | | | Derivative liabilities | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| **(Amounts in millions)** | **Balance sheet classification** | **September 30, 2016** | **December 31, 2015** | **Balance sheet classification** | **September 30, 2016** | **December 31, 2015** |
| **Derivatives designated as hedges** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate swaps | Other invested assets | $ 735 | $ 629 | Other liabilities | $ 89 | $ 37 |
| Inflation indexed swaps | Other invested assets | | | Other liabilities | | 33 |
| Foreign currency swaps | Other invested assets | 6 | 8 | Other liabilities | | |
| Total cash flow hedges | | 741 | 637 | | 89 | 70 |
| Total derivatives designated as hedges | | 741 | 637 | | 89 | 70 |
| **Derivatives not designated as hedges** | | | | | | |
| Interest rate swaps | Other invested assets | 525 | 425 | Other liabilities | 308 | 183 |
| Interest rate swaps related to securitization entities | Restricted other invested assets | | | Other liabilities | | 30 |
| Foreign currency swaps | Other invested assets | | | Other liabilities | 5 | 27 |
| Credit default swaps | Other invested assets | | 1 | Other liabilities | | |
| Credit default swaps related to securitization entities | Restricted other invested assets | | | Other liabilities | 2 | 14 |
| Equity index options | Other invested assets | 61 | 30 | Other liabilities | | |
| Financial futures | | | | Other liabilities | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Other invested assets | | | | | |
| Equity return swaps | Other invested assets | | 2 | Other liabilities | 5 | 1 |
| Other foreign currency contracts | Other invested assets | 4 | 17 | Other liabilities | 32 | 34 |
| GMWB embedded derivatives | Reinsurance recoverable (1) | 24 | 17 | Policyholder account balances (2) | 439 | 352 |
| Fixed index annuity embedded derivatives | Other assets | | | Policyholder account balances (3) | 364 | 342 |
| Indexed universal life embedded derivatives | Reinsurance recoverable | | | Policyholder account balances (4) | 13 | 10 |
| Total derivatives not designated as hedges | | 614 | 492 | | 1,168 | 993 |
| Total derivatives | | $ 1,355 | $ 1,129 | | $ 1,257 | $ 1,063 |

(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 retained 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, 2015 | Additions | Maturities/ terminations | September 30, 2016 |
|---|---|---|---|---|---|
| **Derivatives designated as hedges** | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swaps | Notional | $ 11,214 | $ 9,414 | $ (9,587) | $ 11,041 |
| Inflation indexed swaps | Notional | 571 | 1 | (572) | |
| Foreign currency swaps | Notional | 35 | | | 35 |
| Total cash flow hedges | | 11,820 | 9,415 | (10,159) | 11,076 |
| Total derivatives designated as hedges | | 11,820 | 9,415 | (10,159) | 11,076 |
| **Derivatives not designated as hedges** | | | | | |
| Interest rate swaps | Notional | 4,932 | | (253) | 4,679 |
| Interest rate swaps related to securitization entities | Notional | 67 | | (67) | |
| Foreign currency swaps | Notional | 162 | 133 | (97) | 198 |
| Credit default swaps | Notional | 144 | | (5) | 139 |
| Credit default swaps related to securitization entities | Notional | 312 | | | 312 |
| Equity index options | Notional | 1,080 | 2,346 | (1,097) | 2,329 |
| Financial futures | Notional | 1,331 | 5,393 | (5,255) | 1,469 |
| Equity return swaps | Notional | 134 | 211 | (184) | 161 |
| Other foreign currency contracts | Notional | 1,656 | 1,551 | (535) | 2,672 |
| Total derivatives not designated as hedges | | 9,818 | 9,634 | (7,493) | 11,959 |
| Total derivatives | | $ 21,638 | $ 19,049 | $ (17,652) | $ 23,035 |

| (Number of policies) | Measurement | December 31, | Additions | Maturities/ terminations | September 30, |
|---|---|---|---|---|---|

| | | 2015 | | | 2016 |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| GMWB embedded derivatives | Policies | 36,146 | | (2,179) | 33,967 |
| Fixed index annuity embedded derivatives | Policies | 17,482 | 647 | (462) | 17,667 |
| Indexed universal life embedded derivatives | Policies | 982 | 167 | (48) | 1,101 |

*Cash Flow Hedges*

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 (loss) effects of cash flow hedges for the three months ended September 30, 2016:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income (loss) from OCI | Classification of gain (loss) reclassified into net income (loss) | Gain (loss) recognized in net income (loss) [1] | Classification of gain (loss) recognized in net income (loss) |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 115 | $ 27 | Net investment income | $ 2 | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (2) | | Interest expense | | Net investment gains (losses) |
| Foreign currency swaps | (1) | | Net investment income | | Net investment gains (losses) |
| Total | $ 112 | $ 27 | | $ 2 | |

(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 (loss) effects of cash flow hedges for the three months ended September 30, 2015:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income (loss) from OCI | Classification of gain (loss) reclassified into net income (loss) | Gain (loss) recognized in net income (loss) [1] | Classification of gain (loss) recognized in net income (loss) |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 344 | $ 22 | Net investment income | $ 4 | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (23) | | Interest expense | | Net investment gains (losses) |

| | | | | | |
|---|---|---|---|---|---|
| Inflation indexed swaps | 32 | (5) | Net investment income | 1 | Net investment gains (losses) |
| Forward bond purchase commitments | | 1 | Net investment income | | Net investment gains (losses) |
| Total | $ 353 | $ 18 | | $ 5 | |

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

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(Unaudited)

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 30, 2016:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income (loss) from OCI | Classification of gain (loss) reclassified into net income (loss) | Gain (loss) recognized in net income (loss) [1] | Classification of gain (loss) recognized in net income (loss) |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 839 | $ 80 | Net investment income | $ 13 | Net investment gains (losses) |
| Interest rate swaps hedging assets | | 1 | Net investment gains (losses) | | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (52) | | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | (5) | 2 | Net investment income | | Net investment gains (losses) |
| Inflation indexed swaps | | 7 | Net investment gains (losses) | | Net investment gains (losses) |
| Foreign currency swaps | (2) | | Net investment income | | Net investment gains (losses) |
| Total | $ 780 | $ 90 | | $ 13 | |

(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 (loss) effects of cash flow hedges for the nine months ended September 30, 2015:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income (loss) from | Classification of gain (loss) reclassified into net income (loss) | Gain (loss) recognized in net income (loss) [1] | Classification of gain (loss) recognized in net income (loss) |
|---|---|---|---|---|---|

| | OCI | | | | |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 135 | $ 61 | Net investment income | $ 1 | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (14) | | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | 29 | (2) | Net investment income | 1 | Net investment gains (losses) |
| Foreign currency swaps | 2 | | Net investment income | | Net investment gains (losses) |
| Forward bond purchase commitments | | 1 | Net investment income | | Net investment gains (losses) |
| Total | $ 152 | $ 60 | | $ 2 | |

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

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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, 2016** | **2015** |
|---|---|---|
| Derivatives qualifying as effective accounting hedges as of July 1 | $ 2,439 | $ 1,913 |
| Current period increases (decreases) in fair value, net of deferred taxes of $(40) and $(124) | 72 | 229 |
| Reclassification to net (income) loss, net of deferred taxes of $9 and $6 | (18) | (12) |
| Derivatives qualifying as effective accounting hedges as of September 30 | $ 2,493 | $ 2,130 |

| **(Amounts in millions)** | **Nine months ended September 30, 2016** | **2015** |
|---|---|---|
| Derivatives qualifying as effective accounting hedges as of January 1 | $ 2,045 | $ 2,070 |
| Current period increases (decreases) in fair value, net of deferred taxes of $(273) and $(53) | 507 | 99 |
| Reclassification to net (income) loss, net of deferred taxes of $31 and $21 | (59) | (39) |
| Derivatives qualifying as effective accounting hedges as of September 30 | $ 2,493 | $ 2,130 |

The total of derivatives designated as cash flow hedges of $2,493 million, net of taxes, recorded in stockholders equity as of September 30, 2016 is expected to be reclassified to net income (loss) 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, $83 million, net of taxes, is expected to be reclassified to net income (loss) 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 2047. During the three months ended September 30, 2016, there were immaterial amounts reclassified to net income (loss) in connection with forecasted transactions that were no longer considered probable of occurring. During the nine months ended September 30, 2016, we reclassified $6 million to net income (loss) in connection with forecasted transactions that were no longer considered probable of occurring.

*Fair Value Hedges*

Certain derivative instruments are designated as fair value hedges. The changes in fair value of these instruments are recorded in net income (loss). In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income (loss). We designate and account for the following as fair value hedges when they have met the effectiveness requirements: (i) interest rate swaps to convert fixed rate liabilities into floating rate liabilities; (ii) cross currency swaps to convert non-U.S. dollar fixed rate liabilities to floating rate U.S. dollar liabilities; and (iii) other instruments to hedge various fair value exposures of investments.

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the three and nine months ended September 30, 2016 and 2015.

*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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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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 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 have 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 have recourse to the securitization entity. The interest rate swaps used for these entities are 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 are utilized in certain securitization entities to enhance the yield payable on the borrowings issued by the securitization entity and also include 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.

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

| | Three months ended September 30, | | Classification of gain (loss) recognized |
|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **in net income (loss)** |
| Interest rate swaps | $ (1) | $ (12) | Net investment gains (losses) |
| Interest rate swaps related to securitization entities | | (5) | Net investment gains (losses) |
| Credit default swaps related to securitization entities | 2 | (1) | Net investment gains (losses) |
| Equity index options | 9 | 6 | Net investment gains (losses) |
| Financial futures | (35) | 13 | Net investment gains (losses) |
| Equity return swaps | (9) | 11 | Net investment gains (losses) |
| Other foreign currency contracts | (2) | 4 | Net investment gains (losses) |
| Foreign currency swaps | (1) | (9) | Net investment gains (losses) |
| Forward bond purchase commitments | | 13 | Net investment gains (losses) |

| | | | |
|---|---|---|---|
| GMWB embedded derivatives | 60 | (117) | Net investment gains (losses) |
| Fixed index annuity embedded derivatives | (16) | 31 | Net investment gains (losses) |
| Indexed universal life embedded derivatives | 3 | 2 | Net investment gains (losses) |
| Total derivatives not designated as hedges | $ 10 | $ (64) | |

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| (Amounts in millions) | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | Classification of gain (loss) recognized in net income (loss) |
|---|---|---|---|
| Interest rate swaps | $ 7 | $ (13) | Net investment gains (losses) |
| Interest rate swaps related to securitization entities | (10) | (5) | Net investment gains (losses) |
| Credit default swaps | | 1 | Net investment gains (losses) |
| Credit default swaps related to securitization entities | 16 | 10 | Net investment gains (losses) |
| Equity index options | 5 | (11) | Net investment gains (losses) |
| Financial futures | (9) | (18) | Net investment gains (losses) |
| Equity return swaps | (2) | 3 | Net investment gains (losses) |
| Other foreign currency contracts | (6) | 10 | Net investment gains (losses) |
| Foreign currency swaps | 6 | (17) | Net investment gains (losses) |
| Forward bond purchase commitments | | 13 | Net investment gains (losses) |
| GMWB embedded derivatives | (58) | (68) | Net investment gains (losses) |
| Fixed index annuity embedded derivatives | (22) | 14 | Net investment gains (losses) |
| Indexed universal life embedded derivatives | 6 | 5 | Net investment gains (losses) |
| Total derivatives not designated as hedges | $ (67) | $ (76) | |

*Derivative Counterparty Credit Risk*

Most of our derivative arrangements require the posting of collateral by the counterparty 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.

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | Derivatives assets (1) | Derivatives liabilities (2) | Net derivatives | Derivatives assets (1) | Derivatives liabilities (2) | Net derivatives |

| | | | | | | |
|---|---|---|---|---|---|---|
| Amounts presented in the balance sheet: | | | | | | |
| Gross amounts recognized | $ 1,368 | $ 462 | $ 906 | $ 1,135 | $ 320 | $ 815 |
| Gross amounts offset in the balance sheet | | | | | | |
| Net amounts presented in the balance sheet | 1,368 | 462 | 906 | 1,135 | 320 | 815 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Financial instruments [3] | (338) | (338) | | (231) | (231) | |
| Collateral received | (1,005) | | (1,005) | (642) | | (642) |
| Collateral pledged | | (354) | 354 | | (263) | 263 |
| Over collateralization | 64 | 231 | (167) | 3 | 174 | (171) |
| Net amount | $ 89 | $ 1 | $ 88 | $ 265 | $ | $ 265 |

(1) Included $37 million and $24 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of September 30, 2016 and December 31, 2015, respectively.

(2) Included $23 million and $6 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities as of September 30, 2016 and December 31, 2015, respectively.

(3) Amounts represent derivative assets and/or liabilities that are presented gross within the balance sheet but are held with the same counterparty where we have a master netting arrangement. This adjustment results in presenting the net asset and net liability position for each counterparty.

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Except for derivatives related to securitization entities, almost all 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. If downgrade provisions had been triggered as a result of downgrades of our counterparties, we could have claimed up to $89 million and $265 million as of September 30, 2016 and December 31, 2015, respectively, or have been required to disburse up to $1 million as of September 30, 2016. There were no amounts that we would have been required to disburse as a result of our credit rating downgrades as of December 31, 2015. The chart above excludes embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

*Credit Derivatives*

We sell protection under single name credit default swaps and credit default swap index tranches in combination with purchasing securities to replicate characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for both indexed reference entities and 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.

In addition to the credit derivatives discussed above, we also have credit derivative instruments related to securitization entities that we consolidate. These derivatives represent a customized index of reference entities with specified attachment points for certain derivatives. The credit default triggers are similar to those described above. In the event of default, the securitization entity will provide the counterparty with the par value of assets held in the securitization entity for the amount of incurred loss on the credit default swap. The maximum exposure to loss for the securitization entity is the notional value of the derivatives. Certain losses on these credit default swaps would be absorbed by the third-party noteholders of the securitization entity and the remaining losses on the credit default swaps would be absorbed by our portion of the notes issued by the securitization entity.

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:

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Notional value** | **Assets** | **Liabilities** | **Notional value** | **Assets** | **Liabilities** |
| Investment grade | | | | | | |
| Matures in less than one year | $ | $ | $ | $ | $ | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| Matures after one year through five years | 39 | | | 39 | | |
| Total credit default swaps on single name reference entities | $ 39 | $ | $ | $ 39 | $ | $ |

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The following table sets forth our credit default swaps where we sell protection on credit default swap index tranches and the fair values as of the dates indicated:

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Notional value** | **Assets** | **Liabilities** | **Notional value** | **Assets** | **Liabilities** |
| Original index tranche attachment/detachment point and maturity: | | | | | | |
| 7% - 15% matures in less than one year [1] | $ 100 | $ | $ | $ 100 | $ 1 | $ |
| Total credit default swap index tranches | 100 | | | 100 | 1 | |
| Customized credit default swap index tranches related to securitization entities: | | | | | | |
| Portion backing third-party borrowings maturing 2017 [2] | 12 | | 1 | 12 | | 2 |
| Portion backing our interest maturing 2017 [3] | 300 | | 1 | 300 | | 12 |
| Total customized credit default swap index tranches related to securitization entities | 312 | | 2 | 312 | | 14 |
| Total credit default swaps on index tranches | $ 412 | $ | $ 2 | $ 412 | $ 1 | $ 14 |

(1) The current attachment/detachment as of September 30, 2016 and December 31, 2015 was 7% 15%.
(2) Original notional value was $39 million.
(3) Original notional value was $300 million.

**(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, investment securities, separate accounts, securities held as collateral and derivative instruments. Other financial assets and liabilities those not carried at fair value are discussed below. Apart from certain of our borrowings and certain marketable securities, few of the instruments discussed below 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.

The basis on which we estimate fair value is as follows:

*Commercial mortgage loans.* Based on recent transactions and/or discounted future cash flows, using current market rates. Given the limited availability of data related to transactions for similar instruments, we typically classify these loans as Level 3.

*Restricted commercial mortgage loans.* Based on recent transactions and/or discounted future cash flows, using current market rates. Given the limited availability of data related to transactions for similar instruments, we typically classify these loans as Level 3.

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*Other invested assets.* Primarily represents short-term investments and limited partnerships accounted for under the cost method. The fair value of short-term investments typically does not include significant unobservable inputs and approximate our amortized cost basis. As a result, short-term investments are classified as Level 2. 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. Cost method limited partnerships typically include significant unobservable inputs as a result of being relatively illiquid with limited market activity for similar instruments and are classified as Level 3.

*Long-term borrowings.* We utilize available market data when determining fair value of long-term borrowings issued in the United States and Canada, which includes data on recent trades for the same or similar financial instruments. Accordingly, these instruments are classified as Level 2 measurements. In cases where market data is not available such as our long-term borrowings in Australia, we use broker quotes for which we consider the valuation methodology utilized by the third party, but the valuation typically includes significant unobservable inputs. Accordingly, we classify these borrowings where fair value is based on our consideration of broker quotes as Level 3 measurements.

*Non-recourse funding obligations.* We use an internal model to determine fair value using the current floating rate coupon and expected life/final maturity of the instrument discounted using the floating rate index and current market spread assumption, which is estimated based on recent transactions for these instruments or similar instruments as well as other market information or broker provided data. Given these instruments are private and very little market activity exists, our current market spread assumption is considered to have significant unobservable inputs in calculating fair value and, therefore, results in the fair value of these instruments being classified as Level 3.

*Borrowings related to securitization entities.* Based on market quotes or comparable market transactions. Some of these borrowings are publicly traded debt securities and are classified as Level 2. Certain borrowings are not publicly traded and are classified as Level 3.

*Investment contracts.* Based on expected future cash flows, discounted at current market rates for annuity contracts or institutional products. Given the significant unobservable inputs associated with policyholder behavior and current market rate assumptions used to discount the expected future cash flows, we classify these instruments as Level 3 except for certain funding agreement-backed notes that are traded in the marketplace as a security and are classified as Level 2.

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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:

| | September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | Fair value | | | |
| (Amounts in millions) | Notional amount | Carrying amount | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | |
| Commercial mortgage loans | $ (1) | $ 6,017 | $ 6,491 | $ | $ | $ 6,491 |
| Restricted commercial mortgage loans | (1) | 134 | 151 | | | 151 |
| Other invested assets | (1) | 429 | 442 | | 342 | 100 |
| Liabilities: | | | | | | |
| Long-term borrowings (2) | (1) | 4,194 | 3,661 | | 3,511 | 150 |
| Non-recourse funding obligations (2) | (1) | 310 | 181 | | | 181 |
| Borrowings related to securitization entities | (1) | 67 | 69 | | 69 | |
| Investment contracts | (1) | 16,792 | 18,027 | | 5 | 18,022 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | 188 | | | | | |
| Ordinary course of business lending commitments | 149 | | | | | |

| | December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | | Fair value | | | |
| (Amounts in millions) | Notional amount | Carrying amount | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | |
| Commercial mortgage loans | $ (1) | $ 6,170 | $ 6,476 | $ | $ | $ 6,476 |
| Restricted commercial mortgage loans | (1) | 161 | 179 | | | 179 |
| Other invested assets | (1) | 273 | 279 | | 197 | 82 |
| Liabilities: | | | | | | |
| Long-term borrowings (2) | (1) | 4,570 | 3,518 | | 3,343 | 175 |
| Non-recourse funding obligations (2) | (1) | 1,920 | 1,401 | | | 1,401 |
| Borrowings related to securitization entities | (1) | 98 | 104 | | 104 | |
| Investment contracts | (1) | 17,258 | 17,910 | | 5 | 17,905 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | 131 | | | | | |
| Ordinary course of business lending commitments | 40 | | | | | |

(1) These financial instruments do not have notional amounts.
(2) See note 9 for additional information related to borrowings.

*Recurring Fair Value Measurements*

We have fixed maturity, equity and trading securities, 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.

*Fixed maturity, equity and trading securities*

The fair value of fixed maturity, equity and trading securities are estimated primarily based on information derived from third-party pricing services ( pricing services ), internal models and/or third-party broker provided

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prices ( 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. If a price is not supplied by a pricing service, we will typically seek a broker quote for public or private fixed maturity securities. In certain instances, we utilize price caps for broker quoted securities where the estimated market yield results in a valuation that may exceed the amount that we believe would be received in a market transaction. 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. 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 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.

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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, equity and trading 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.

**Level 1 measurements**

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

**Level 2 measurements**

*Fixed maturity securities*

*Third-party pricing services*: In estimating the fair value of fixed maturity securities, approximately 92% of our portfolio is priced using third-party pricing sources. 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

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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.

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, 2016:

| (Amounts in millions) | Fair value | Primary methodologies | Significant inputs |
|---|---|---|---|
| U.S. government, agencies and government-sponsored enterprises | $ 6,701 | 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 | $ 2,780 | 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 | $ 2,210 | 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 | $ 24,564 | 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 | $ 11,093 | Multi-dimensional attribute-based modeling systems, OAS-based | Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research |

| | | | | |
|---|---|---|---|---|
| | | | models, price quotes from market makers | publications, third-party pricing sources |
| Residential mortgage-backed | $ | 4,786 | OAS-based models, To Be Announced pricing models, single factor binomial models, internally priced | Prepayment and default assumptions, aggregation of bonds with similar characteristics, including collateral type, vintage, tranche type, weighted-average life, weighted-average loan age, issuer program and delinquency ratio, pay up and pay down factors, TRACE reports |
| Commercial mortgage-backed | $ | 3,145 | Multi-dimensional attribute-based modeling systems, pricing matrix, spread matrix priced to swap curves, Trepp commercial mortgage-backed securities analytics model | Credit risk, interest rate risk, prepayment speeds, new issue data, collateral performance, origination year, tranche type, original credit ratings, weighted-average life, cash flows, spreads derived from broker quotes, bid side prices, spreads to daily updated swaps curves, TRACE reports |
| Other asset-backed | $ | 3,177 | 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 state and political subdivisions, 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 $8 million, $17 million, $626 million and $326 million, respectively, as of September 30, 2016. 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.

**Level 3 measurements**

*Fixed maturity securities*

*Internal models*: A portion of our U.S. government, agencies and government-sponsored enterprises, non-U.S. government, 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 $3,618 million as of September 30, 2016.

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

Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was $729 million as of September 30, 2016.

*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 have trading securities related to securitization entities that are classified as restricted other invested assets and are carried at fair value. The trading securities represent asset-backed securities. The valuation for

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trading securities is determined using a market approach and/or an income approach depending on the availability of information. For certain highly rated asset-backed securities, there is observable market information for transactions of the same or similar instruments, which is provided to us by a third-party pricing service and is classified as Level 2. For certain securities that are not actively traded, we determine fair value after considering third-party broker provided prices or discounted expected cash flows using current yields for similar securities and classify these valuations as Level 3.

*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.

*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.

*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. For certain other swaps, there are features that provide an option to the counterparty to terminate the swap at specified dates. The interest rate volatility input used to value these options would be considered a significant unobservable input and results in the fair value measurement of the derivative being classified as Level 3. These options to terminate the swap by the counterparty are based on forward interest rate swap curves and volatility. As interest rate volatility increases, our valuation of the derivative changes unfavorably.

*Interest rate swaps related to securitization entities.* The valuation of interest rate swaps related to securitization entities 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.

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*Inflation indexed swaps.* The valuation of inflation indexed swaps is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, the current consumer price index and the forward consumer price index curve, which are generally considered observable inputs, and results 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 both single name credit default swaps and 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 utilize an income approach that utilizes current market information related to credit spreads and expected defaults and losses associated with the reference entities that comprise the respective index associated with each derivative. There are 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 will be absorbed by our tranche. Accordingly, the index tranche credit default swaps are classified as Level 3. As credit spreads widen for the underlying issuers comprising the index, the change in our valuation of these credit default swaps will be unfavorable.

*Credit default swaps related to securitization entities.* Credit default swaps related to securitization entities represent customized index tranche credit default swaps and are valued using a similar methodology as described above for index tranche credit default swaps. We determine 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 contain a feature that permits 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 is dependent upon the valuation of the underlying assets and the timing and amount of any expected loss on the credit default swap, which is considered a significant unobservable input. Accordingly, these customized index tranche credit default swaps related to securitization entities are classified as Level 3. As credit spreads widen for the underlying issuers comprising the customized index, the change in our valuation of these credit default swaps will be 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 rate volatility 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.

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*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.

*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.

*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, 2016 and December 31, 2015, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $88 million and $79 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

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

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

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

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

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

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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.

*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.

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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:

| | September 30, 2016 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 6,703 | $ | $ 6,701 | $ 2 |
| State and political subdivisions | 2,824 | | 2,788 | 36 |
| Non-U.S. government | 2,227 | | 2,227 | |
| U.S. corporate: | | | | |
| Utilities | 4,749 | | 4,187 | 562 |
| Energy | 2,279 | | 2,077 | 202 |
| Finance and insurance | 6,340 | | 5,520 | 820 |
| Consumer non-cyclical | 4,878 | | 4,775 | 103 |
| Technology and communications | 2,726 | | 2,673 | 53 |
| Industrial | 1,291 | | 1,213 | 78 |
| Capital goods | 2,195 | | 2,059 | 136 |
| Consumer cyclical | 1,660 | | 1,395 | 265 |
| Transportation | 1,215 | | 1,091 | 124 |
| Other | 362 | | 200 | 162 |
| Total U.S. corporate | 27,695 | | 25,190 | 2,505 |
| Non-U.S. corporate: | | | | |
| Utilities | 961 | | 592 | 369 |
| Energy | 1,395 | | 1,170 | 225 |
| Finance and insurance | 2,658 | | 2,444 | 214 |
| Consumer non-cyclical | 822 | | 678 | 144 |
| Technology and communications | 1,047 | | 966 | 81 |
| Industrial | 1,018 | | 906 | 112 |
| Capital goods | 580 | | 407 | 173 |
| Consumer cyclical | 505 | | 434 | 71 |
| Transportation | 683 | | 510 | 173 |
| Other | 3,339 | | 3,312 | 27 |
| Total non-U.S. corporate | 13,008 | | 11,419 | 1,589 |

| | | | | |
|---|---|---|---|---|
| Residential mortgage-backed | 4,823 | | 4,786 | 37 |
| Commercial mortgage-backed | 3,173 | | 3,145 | 28 |
| Other asset-backed | 3,327 | | 3,177 | 150 |
| Total fixed maturity securities | 63,780 | | 59,433 | 4,347 |
| Equity securities | 590 | 520 | 24 | 46 |
| Other invested assets: | | | | |
| Trading securities | 384 | | 384 | |
| Derivative assets: | | | | |
| Interest rate swaps | 1,260 | | 1,260 | |
| Foreign currency swaps | 6 | | 6 | |
| Equity index options | 61 | | | 61 |
| Other foreign currency contracts | 4 | | 3 | 1 |
| Total derivative assets | 1,331 | | 1,269 | 62 |
| Securities lending collateral | 417 | | 417 | |
| Total other invested assets | 2,132 | | 2,070 | 62 |
| Restricted other invested assets related to securitization entities | 312 | | 181 | 131 |
| Reinsurance recoverable (1) | 24 | | | 24 |
| Separate account assets | 7,485 | 7,485 | | |
| Total assets | $ 74,323 | $ 8,005 | $ 61,708 | $ 4,610 |

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

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| | December 31, 2015 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 6,203 | $ | $ 6,200 | $ 3 |
| State and political subdivisions | 2,438 | | 2,403 | 35 |
| Non-U.S. government | 2,015 | | 2,015 | |
| U.S. corporate: | | | | |
| Utilities | 3,693 | | 3,244 | 449 |
| Energy | 2,501 | | 2,248 | 253 |
| Finance and insurance | 5,632 | | 4,917 | 715 |
| Consumer non-cyclical | 4,096 | | 3,987 | 109 |
| Technology and communications | 2,193 | | 2,158 | 35 |
| Industrial | 1,173 | | 1,112 | 61 |
| Capital goods | 1,950 | | 1,770 | 180 |
| Consumer cyclical | 1,675 | | 1,436 | 239 |
| Transportation | 1,086 | | 980 | 106 |
| Other | 402 | | 220 | 182 |
| Total U.S. corporate | 24,401 | | 22,072 | 2,329 |
| Non-U.S. corporate: | | | | |
| Utilities | 843 | | 556 | 287 |
| Energy | 1,686 | | 1,434 | 252 |
| Finance and insurance | 2,473 | | 2,282 | 191 |
| Consumer non-cyclical | 752 | | 583 | 169 |
| Technology and communications | 988 | | 926 | 62 |
| Industrial | 986 | | 902 | 84 |
| Capital goods | 604 | | 391 | 213 |
| Consumer cyclical | 526 | | 455 | 71 |
| Transportation | 605 | | 461 | 144 |
| Other | 2,736 | | 2,664 | 72 |
| Total non-U.S. corporate | 12,199 | | 10,654 | 1,545 |
| Residential mortgage-backed | 5,101 | | 4,985 | 116 |
| Commercial mortgage-backed | 2,559 | | 2,549 | 10 |
| Other asset-backed | 3,281 | | 2,139 | 1,142 |

| | | | | |
|---|---|---|---|---|
| Total fixed maturity securities | 58,197 | | 53,017 | 5,180 |
| Equity securities | 310 | 270 | 2 | 38 |
| Other invested assets: | | | | |
| Trading securities | 447 | | 447 | |
| Derivative assets: | | | | |
| Interest rate swaps | 1,054 | | 1,054 | |
| Foreign currency swaps | 8 | | 8 | |
| Credit default swaps | 1 | | | 1 |
| Equity index options | 30 | | | 30 |
| Equity return swaps | 2 | | 2 | |
| Other foreign currency contracts | 17 | | 14 | 3 |
| Total derivative assets | 1,112 | | 1,078 | 34 |
| Securities lending collateral | 347 | | 347 | |
| Total other invested assets | 1,906 | | 1,872 | 34 |
| Restricted other invested assets related to securitization entities | 413 | | 181 | 232 |
| Reinsurance recoverable [1] | 17 | | | 17 |
| Separate account assets | 7,883 | 7,883 | | |
| Total assets | $ 68,726 | $ 8,153 | $ 55,072 | $ 5,501 |

[1] Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| (Amounts in millions) | Beginning balance as of July 1, 2016 | Total realized and unrealized gains (losses) Included in net income (loss) | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 [1] | Transfer out of Level 3 [1] | Ending balance as of September 30, 2016 | Total gains (losses) included in net income (loss) attributable to assets still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 2 | $ | $ | $ | $ | $ | $ | $ | $ | $ 2 | $ |
| State and political subdivisions | 36 | 1 | | | | | | | (1) | 36 | 1 |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 552 | 1 | 4 | 54 | (6) | | (1) | 1 | (43) | 562 | |
| Energy | 208 | | 3 | | | | (8) | | (1) | 202 | |
| Finance and insurance | 775 | 4 | 14 | 27 | (5) | | (32) | 37 | | 820 | 5 |
| Consumer non-cyclical | 102 | | 1 | 5 | (5) | | | | | 103 | |
| Technology and communications | 40 | 1 | | 12 | | | | | | 53 | 1 |
| Industrial | 78 | | | | | | | | | 78 | |
| Capital goods | 135 | | 1 | | | | | | | 136 | 1 |
| Consumer cyclical | 254 | | | 19 | (5) | | (1) | 1 | (3) | 265 | |
| Transportation | 129 | | 1 | | | | (6) | | | 124 | |
| Other | 147 | | | | | | (1) | 16 | | 162 | |
| Total U.S. corporate | 2,420 | 6 | 24 | 117 | (21) | | (49) | 55 | (47) | 2,505 | 7 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 331 | | 1 | 52 | (5) | | | | (10) | 369 | |
| Energy | 234 | | 9 | 8 | (9) | | (17) | | | 225 | |
| Finance and insurance | 201 | | 3 | 11 | (1) | | | | | 214 | |
| Consumer non-cyclical | 168 | 2 | (1) | 3 | (3) | | (37) | 12 | | 144 | |
| Technology and communications | 80 | | 1 | 2 | (2) | | | | | 81 | |
| Industrial | 95 | | 2 | 17 | (17) | | | 15 | | 112 | |
| Capital goods | 212 | 1 | (2) | | | | (5) | | (33) | 173 | 1 |
| Consumer cyclical | 71 | | | | | | | | | 71 | |
| Transportation | 186 | 1 | (1) | | | | (14) | 1 | | 173 | |
| Other | 29 | (2) | 2 | | (12) | | | 10 | | 27 | (2) |
| Total non-U.S. corporate | 1,607 | 2 | 14 | 93 | (49) | | (73) | 38 | (43) | 1,589 | (1) |
| Residential mortgage-backed | 96 | | | | (45) | | (8) | 5 | (11) | 37 | |
| Commercial mortgage-backed | 33 | | (3) | | | | | | (2) | 28 | |
| Other asset-backed | 198 | (6) | 7 | | (5) | | (5) | 25 | (64) | 150 | (6) |
| Total fixed maturity securities | 4,392 | 3 | 42 | 210 | (120) | | (135) | 123 | (168) | 4,347 | 1 |
| Equity securities | 44 | | | 2 | | | | | | 46 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Equity index options | 57 | 9 | | 15 | | | (20) | | | 61 | |
| Other foreign currency contracts | 1 | | | | | | | | | 1 | |
| Total derivative assets | 58 | 9 | | 15 | | | (20) | | | 62 | |
| Total other invested assets | 58 | 9 | | 15 | | | (20) | | | 62 | |
| Restricted other invested assets related to securitization entities | 131 | | | | | | | | | 131 | |
| Reinsurance recoverable [(2)] | 26 | (3) | | | | 1 | | | | 24 | (3) |
| Total Level 3 assets | $ 4,651 | $ 9 | $ 42 | $ 227 | $ (120) | $ 1 | $ (155) | $ 123 | $ (168) | $ 4,610 | $ (2) |

(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 balance as of July 1, 2015 | Total realized and unrealized gains (losses) Included in net income (loss) | Total realized and unrealized gains (losses) Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 (1) | Transfer out of Level 3 (1) | Ending balance as of September 30, 2015 | Total gains (losses) included in net income (loss) attributable to assets still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 3 | $ | $ | $ | $ | $ | $ | $ | $ | $ 3 | $ |
| State and political subdivisions | 40 | 1 | (1) | | | | | | (5) | 35 | 1 |
| Non-U.S. government | 5 | | | | | | | | (5) | | |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 448 | | 1 | 23 | | | | 8 | (17) | 463 | |
| Energy | 269 | | (3) | | | | (1) | | | 265 | |
| Finance and insurance | 629 | 4 | (3) | 55 | | | (3) | | (20) | 662 | 3 |
| Consumer non-cyclical | 108 | | (1) | | | | (2) | | (10) | 95 | |
| Technology and communications | 33 | 1 | 1 | | | | | | (1) | 34 | 1 |
| Industrial | 36 | | 1 | 28 | | | | | | 65 | |
| Capital goods | 165 | | (2) | 27 | | | | | | 190 | |
| Consumer cyclical | 296 | 1 | (2) | 30 | | | (28) | 10 | | 307 | |
| Transportation | 121 | | (1) | | | | (1) | | (9) | 110 | |
| Other | 166 | | 2 | | | | (1) | 19 | | 186 | |
| Total U.S. corporate | 2,271 | 6 | (7) | 163 | | | (36) | 37 | (57) | 2,377 | 4 |
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 326 | | | 18 | | | | | | 344 | |
| Energy | 305 | | (3) | | | | (23) | | | 279 | |
| Finance and insurance | 218 | | 1 | 15 | | | | | | 234 | |
| Consumer non-cyclical | 169 | | | | | | (11) | | (1) | 157 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Technology and communications | 42 | | | | | | | | | 42 | |
| Industrial | 125 | | | | | | (4) | | (33) | 88 | |
| Capital goods | 237 | | (2) | | | | (5) | | | 230 | |
| Consumer cyclical | 73 | | (2) | | | | | 16 | | 87 | |
| Transportation | 154 | | | | | | (8) | | | 146 | |
| Other | 75 | | (2) | | | | | | | 73 | |
| Total non-U.S. corporate | 1,724 | | (8) | 33 | | | (51) | 16 | (34) | 1,680 | |
| Residential mortgage-backed | 132 | | (3) | 6 | | | (2) | 9 | (72) | 70 | |
| Commercial mortgage-backed | 25 | | (1) | | | | | | (13) | 11 | |
| Other asset-backed | 1,360 | | (7) | 34 | (14) | | (50) | 77 | (94) | 1,306 | 2 |
| Total fixed maturity securities | 5,560 | 7 | (27) | 236 | (14) | | (139) | 139 | (280) | 5,482 | 7 |
| Equity securities | 41 | | | | (4) | | | 1 | | 38 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 1 | | | | | | | | | 1 | |
| Equity index options | 12 | 6 | | | | | (3) | | | 15 | 5 |
| Total derivative assets | 13 | 6 | | | | | (3) | | | 16 | 5 |
| Total other invested assets | 13 | 6 | | | | | (3) | | | 16 | 5 |
| Restricted other invested assets related to securitization entities | 230 | 1 | | | | | | | | 231 | 1 |
| Reinsurance recoverable [2] | 10 | 9 | | | | | | | | 19 | 9 |
| Total Level 3 assets | $ 5,854 | $ 23 | $ (27) | $ 236 | $ (18) | $ | $ (142) | $ 140 | $ (280) | $ 5,786 | $ 22 |

(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)

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

| (Amounts in millions) | Beginning balance as of January 1, 2016 | Total realized and unrealized gains (losses) Included in net income (loss) | Total realized and unrealized gains (losses) Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 [(1)] | Transfer out of Level 3 [(1)] | Ending balance as of September 30, 2016 | Total gains (losses) included in net income (loss) attributable to assets still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 3 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 2 | $ |
| State and political subdivisions | 35 | 2 | (1) | 7 | | | | | (7) | 36 | 2 |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 449 | 1 | 28 | 101 | (6) | | (9) | 68 | (70) | 562 | |
| Energy | 253 | | (1) | | | | (10) | 7 | (47) | 202 | |
| Finance and insurance | 715 | 12 | 58 | 54 | (14) | | (59) | 72 | (18) | 820 | 11 |
| Consumer non-cyclical | 109 | | 7 | 5 | (18) | | | | | 103 | |
| Technology and communications | 35 | 2 | 4 | 12 | | | | | | 53 | 2 |
| Industrial | 61 | | 5 | | | | | 12 | | 78 | |
| Capital goods | 180 | 1 | 6 | | (10) | | | | (41) | 136 | 1 |
| Consumer cyclical | 239 | 4 | 9 | 44 | (5) | | (42) | 19 | (3) | 265 | |
| Transportation | 106 | 1 | 9 | 17 | | | (14) | 5 | | 124 | 1 |
| Other | 182 | 1 | 1 | | | | (5) | 16 | (33) | 162 | 1 |
| Total U.S. corporate | 2,329 | 22 | 126 | 233 | (53) | | (139) | 199 | (212) | 2,505 | 16 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 287 | | 9 | 62 | (5) | | | 26 | (10) | 369 | |
| Energy | 252 | | 33 | 8 | (11) | | (31) | | (26) | 225 | |
| Finance and insurance | 191 | 2 | 11 | 11 | (1) | | | | | 214 | 2 |
| Consumer non-cyclical | 169 | 2 | 9 | 3 | (3) | | (48) | 12 | | 144 | |
| Technology and communications | 62 | | 6 | 18 | (5) | | | | | 81 | |
| Industrial | 84 | | 7 | 17 | (20) | | | 24 | | 112 | |
| Capital goods | 213 | 1 | 7 | | | | (15) | | (33) | 173 | 1 |
| Consumer cyclical | 71 | | 2 | | | | (2) | | | 71 | |
| Transportation | 144 | 1 | 3 | | | | (14) | 39 | | 173 | |
| Other | 72 | (2) | 4 | | (12) | | (7) | 10 | (38) | 27 | (2) |
| Total non-U.S. corporate | 1,545 | 4 | 91 | 119 | (57) | | (117) | 111 | (107) | 1,589 | 1 |
| Residential mortgage-backed | 116 | | 2 | 51 | (45) | | (13) | 13 | (87) | 37 | |
| Commercial mortgage-backed | 10 | | 1 | 23 | | | (4) | | (2) | 28 | |
| Other asset-backed | 1,142 | (16) | 3 | 12 | (25) | | (19) | 66 | (1,013) | 150 | (16) |
| Total fixed maturity securities | 5,180 | 12 | 222 | 445 | (180) | | (293) | 389 | (1,428) | 4,347 | 3 |
| Equity securities | 38 | | | 8 | | | | | | 46 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 1 | | | | | | (1) | | | | |
| Equity index options | 30 | 5 | | 51 | | | (25) | | | 61 | (4) |
| Other foreign currency contracts | 3 | (2) | | 1 | | | (1) | | | 1 | (2) |
| Total derivative assets | 34 | 3 | | 52 | | | (27) | | | 62 | (6) |
| Total other invested assets | 34 | 3 | | 52 | | | (27) | | | 62 | (6) |
| Restricted other invested assets related to securitization entities | 232 | (55) | | | | | (46) | | | 131 | 9 |
| Reinsurance recoverable [2] | 17 | 5 | | | | 2 | | | | 24 | 5 |
| Total Level 3 assets | $ 5,501 | $ (35) | $ 222 | $ 505 | $ (180) | $ 2 | $ (366) | $ 389 | $ (1,428) | $ 4,610 | $ 11 |

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

securities. Most significantly, the majority of the transfers out of Level 3 related to a reclassification of collateralized loan obligation securities previously valued using a broker priced source to now being valued using third-party pricing services.

(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 (loss) attributable to assets still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (Amounts in millions) | Beginning balance as of January 1, 2015 | Included in net income (loss) | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 [1] | Transfer out of Level 3 [1] | Ending balance as of September 30, 2015 | |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 4 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 3 | $ |
| State and political subdivisions | 30 | 2 | 8 | 5 | | | | | (10) | 35 | 2 |
| Non-U.S. government | 7 | | (1) | | | | (1) | | (5) | | |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 444 | | (9) | 38 | | | (2) | 10 | (18) | 463 | |
| Energy | 285 | | (7) | 4 | (4) | | (5) | | (8) | 265 | |
| Finance and insurance | 616 | 12 | (25) | 83 | | | (28) | 47 | (43) | 662 | 10 |
| Consumer non-cyclical | 140 | 2 | | | | | (37) | | (10) | 95 | |
| Technology and communications | 45 | 2 | (2) | | | | | | (11) | 34 | 2 |
| Industrial | 36 | | 1 | 28 | | | | | | 65 | |
| Capital goods | 166 | | (3) | 28 | (1) | | | | | 190 | |
| Consumer cyclical | 363 | 1 | (3) | 39 | | | (36) | 10 | (67) | 307 | |
| Transportation | 153 | 1 | (3) | 7 | | | (30) | | (18) | 110 | 1 |
| Other | 171 | 1 | | | | | (5) | 19 | | 186 | 1 |
| Total U.S. corporate | 2,419 | 19 | (51) | 227 | (5) | | (143) | 86 | (175) | 2,377 | 14 |
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 328 | | (2) | 18 | | | | | | 344 | |
| Energy | 324 | (1) | (5) | | (9) | | (30) | | | 279 | (1) |
| Finance and insurance | 221 | 2 | (3) | 21 | | | (3) | | (4) | 234 | 2 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Consumer non-cyclical | 197 | | 2 | | | | (41) | | (1) | 157 | |
| Technology and communications | 42 | | | | | | | 1 | (1) | 42 | |
| Industrial | 131 | | | 7 | | | (18) | 1 | (33) | 88 | |
| Capital goods | 237 | | (2) | | | | (5) | | | 230 | |
| Consumer cyclical | 89 | | (1) | | | | | 16 | (17) | 87 | |
| Transportation | 154 | | | | | | (8) | | | 146 | |
| Other | 81 | | 3 | | | | (11) | 1 | (1) | 73 | |
| Total non-U.S. corporate | 1,804 | 1 | (8) | 46 | (9) | | (116) | 19 | (57) | 1,680 | 1 |
| Residential mortgage-backed | 65 | | (3) | 37 | | | (7) | 50 | (72) | 70 | |
| Commercial mortgage-backed | 5 | | (1) | 9 | | | (1) | 13 | (14) | 11 | |
| Other asset-backed | 1,420 | 3 | 10 | 129 | (22) | | (234) | 141 | (141) | 1,306 | 2 |
| Total fixed maturity securities | 5,754 | 25 | (46) | 453 | (36) | | (503) | 309 | (474) | 5,482 | 19 |
| Equity securities | 34 | | | 1 | (5) | | | 8 | | 38 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 3 | | | | | | (2) | | | 1 | |
| Equity index options | 17 | (11) | | 12 | | | (3) | | | 15 | (8) |
| Total derivative assets | 20 | (11) | | 12 | | | (5) | | | 16 | (8) |
| Total other invested assets | 20 | (11) | | 12 | | | (5) | | | 16 | (8) |
| Restricted other invested assets related to securitization entities | 230 | 1 | | | | | | | | 231 | 1 |
| Reinsurance recoverable [2] | 13 | 5 | | | | 1 | | | | 19 | 5 |
| Total Level 3 assets | $ 6,051 | $ 20 | $ (46) | $ 466 | $ (41) | $ 1 | $ (508) | $ 317 | $ (474) | $ 5,786 | $ 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.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| **(Amounts in millions)** | **Three months ended September 30, 2016** | **Three months ended September 30, 2015** | **Nine months ended September 30, 2016** | **Nine months ended September 30, 2015** |
|---|---|---|---|---|
| Total realized and unrealized gains (losses) included in net income (loss): | | | | |
| Net investment income | $ 11 | $ 9 | $ (33) | $ 30 |
| Net investment gains (losses) | (2) | 14 | (2) | (10) |
| Total | $ 9 | $ 23 | $ (35) | $ 20 |
| Total gains (losses) included in net income (loss) attributable to assets still held: | | | | |
| Net investment income | $ 9 | $ 8 | $ 23 | $ 23 |
| Net investment gains (losses) | (11) | 14 | (12) | (6) |
| Total | $ (2) | $ 22 | $ 11 | $ 17 |

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

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**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, 2016:

| (Amounts in millions) | Valuation technique | Fair value | Unobservable input | Range | Weighted-average |
|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | |
| U.S. corporate: | | | | | |
| Utilities | Internal models | $ 537 | Credit spreads | 94bps - 315bps | 158bps |
| Energy | Internal models | 65 | Credit spreads | 113bps - 359bps | 183bps |
| Finance and insurance | Internal models | 746 | Credit spreads | 92bps - 528bps | 253bps |
| Consumer non-cyclical | Internal models | 103 | Credit spreads | 107bps - 326bps | 189bps |
| Technology and communications | Internal models | 53 | Credit spreads | 295bps - 390bps | 372bps |
| Industrial | Internal models | 49 | Credit spreads | 139bps - 346bps | 229bps |
| Capital goods | Internal models | 136 | Credit spreads | 70bps - 291bps | 136bps |
| Consumer cyclical | Internal models | 240 | Credit spreads | 70bps - 313bps | 188bps |
| Transportation | Internal models | 115 | Credit spreads | 87bps - 292bps | 170bps |
| Other | Internal models | 131 | Credit spreads | 84bps - 187bps | 116bps |
| Total U.S. corporate | Internal models | $ 2,175 | Credit spreads | 70bps - 528bps | 200bps |
| Non-U.S. corporate: | | | | | |
| Utilities | Internal models | $ 369 | Credit spreads | 94bps - 192bps | 135bps |
| Energy | Internal models | 153 | Credit spreads | 117bps - 221bps | 165bps |
| Finance and insurance | Internal models | 204 | Credit spreads | 90bps - 255bps | 146bps |
| Consumer non-cyclical | Internal models | 132 | Credit spreads | 70bps - 254bps | 158bps |
| Technology and communications | Internal models | 81 | Credit spreads | 117bps - 254bps | 191bps |
| Industrial | Internal models | 103 | Credit spreads | 132bps - 254bps | 195bps |
| Capital goods | Internal models | 124 | Credit spreads | 117bps - 221bps | 155bps |
| Consumer cyclical | Internal models | 71 | Credit spreads | 110bps - 186bps | 150bps |
| Transportation | Internal models | 145 | Credit spreads | 95bps - 243bps | 141bps |
| Other | Internal models | 14 | Credit spreads | 105bps - 916bps | 345bps |
| Total non-U.S. corporate | Internal models | $ 1,396 | Credit spreads | 70bps - 916bps | 155bps |

Derivative assets:

| | | | | | |
|---|---|---|---|---|---|
| Equity index options | Discounted cash flows | $ 61 | Equity index volatility | % - 26% | 17% |
| Other foreign currency contracts | Discounted cash flows | $ 1 | Foreign exchange rate volatility | 9% - 12% | 11% |

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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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| | September 30, 2016 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [(1)] | $ 439 | $ | $ | $ 439 |
| Fixed index annuity embedded derivatives | 364 | | | 364 |
| Indexed universal life embedded derivatives | 13 | | | 13 |
| Total policyholder account balances | 816 | | | 816 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 397 | | 397 | |
| Foreign currency swaps | 5 | | 5 | |
| Credit default swaps related to securitization entities | 2 | | 2 | |
| Equity return swaps | 5 | | 5 | |
| Other foreign currency contracts | 32 | | 32 | |
| Total derivative liabilities | 441 | | 441 | |
| Borrowings related to securitization entities | 11 | | | 11 |
| Total liabilities | $ 1,268 | $ | $ 441 | $ 827 |

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

| | December 31, 2015 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [(1)] | $ 352 | $ | $ | $ 352 |
| Fixed index annuity embedded derivatives | 342 | | | 342 |
| Indexed universal life embedded derivatives | 10 | | | 10 |

| | | | | |
|---|---|---|---|---|
| Total policyholder account balances | 704 | | | 704 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 220 | | 220 | |
| Interest rate swaps related to securitization entities | 30 | | 30 | |
| Inflation indexed swaps | 33 | | 33 | |
| Foreign currency swaps | 27 | | 27 | |
| Credit default swaps related to securitization entities | 14 | | | 14 |
| Equity return swaps | 1 | | 1 | |
| Other foreign currency contracts | 34 | | 34 | |
| Total derivative liabilities | 359 | | 345 | 14 |
| Borrowings related to securitization entities | 81 | | | 81 |
| Total liabilities | $ 1,144 | $ | $ 345 | $ 799 |

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| (Amounts in millions) | Beginning balance as of July 1, 2016 | Total realized and unrealized (gains) losses Included in net (income) loss | Total realized and unrealized (gains) losses Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 | Transfer out of Level 3 | Ending balance as of September 30, 2016 | Total (gains) losses included in net (income) loss attributable to liabilities still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 494 | $ (63) | $ | $ | $ | $ 8 | $ | $ | $ | $ 439 | $ (59) |
| Fixed index annuity embedded derivatives | 351 | 16 | | | | | (3) | | | 364 | 16 |
| Indexed universal life embedded derivatives | 13 | (3) | | | | 3 | | | | 13 | (3) |
| Total policyholder account balances | 858 | (50) | | | | 11 | (3) | | | 816 | (46) |
| Borrowings related to securitization entities | 11 | | | | | | | | | 11 | |
| Total Level 3 liabilities | $ 869 | $ (50) | $ | $ | $ | $ 11 | $ (3) | $ | $ | $ 827 | $ (46) |

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| | | Total realized and unrealized (gains) losses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of July 1, 2015** | **Included in net (income) loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of September 30, 2015** | **Total (gains) losses included in net (income) loss attributable to liabilities still held** |
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [(1)] | $ 255 | $ 126 | $ | $ | $ | $ 9 | $ | $ | $ | $ 390 | $ 124 |
| Fixed index annuity embedded derivatives | 322 | (31) | | | | 14 | (1) | | | 304 | (31) |
| Indexed universal life embedded derivatives | 9 | (2) | | | | 3 | | | | 10 | (2) |
| Total policyholder account balances | 586 | 93 | | | | 26 | (1) | | | 704 | 91 |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities | 8 | 1 | | 1 | | | | | | 10 | 1 |
| Total derivative liabilities | 8 | 1 | | 1 | | | | | | 10 | 1 |
| Borrowings related to securitization entities | 84 | (4) | | | | | | | | 80 | (4) |
| Total Level 3 liabilities | $ 678 | $ 90 | $ | $ 1 | $ | $ 26 | $ (1) | $ | $ | $ 794 | $ 88 |

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| (Amounts in millions) | Beginning balance as of January 1, 2016 | Total realized and unrealized (gains) losses Included in net (income) loss | Total realized and unrealized (gains) losses Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 | Transfer out of Level 3 | Ending balance as of September 30, 2016 | Total (gains) losses included in net (income) loss attributable to liabilities still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 352 | $ 63 | $ | $ | $ | $ 24 | $ | $ | $ | $ 439 | $ 72 |
| Fixed index annuity embedded derivatives | 342 | 22 | | | | 10 | (10) | | | 364 | 22 |
| Indexed universal life embedded derivatives | 10 | (6) | | | | 9 | | | | 13 | (6) |
| Total policyholder account balances | 704 | 79 | | | | 43 | (10) | | | 816 | 88 |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities | 14 | (13) | | | | | 2 | | (3) | | |
| Total derivative liabilities | 14 | (13) | | | | | 2 | | (3) | | |
| Borrowings related to securitization entities | 81 | (65) | | | | | (5) | | | 11 | |
| Total Level 3 liabilities | $ 799 | $ 1 | $ | $ | $ | $ 43 | $ (13) | $ | $ (3) | $ 827 | $ 88 |

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| | | Total realized and unrealized (gains) losses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2015** | **Included in net (income) loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of September 30, 2015** | **Total (gains) losses included in net (income) loss attributable to liabilities still held** |
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 291 | $ 73 | $ | $ | $ | $ 26 | $ | $ | $ | $ 390 | $ 75 |
| Fixed index annuity embedded derivatives | 276 | (14) | | | | 47 | (5) | | | 304 | (14) |
| Indexed universal life embedded derivatives | 7 | (5) | | | | 8 | | | | 10 | (5) |
| Total policyholder account balances | 574 | 54 | | | | 81 | (5) | | | 704 | 56 |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities | 17 | (10) | | 3 | | | | | | 10 | (10) |
| Total derivative liabilities | 17 | (10) | | 3 | | | | | | 10 | (10) |
| Borrowings related to securitization entities | 85 | (6) | | | | 1 | | | | 80 | (6) |
| Total Level 3 liabilities | $ 676 | $ 38 | $ | $ 3 | $ | $ 82 | $ (5) | $ | $ | $ 794 | $ 40 |

[1] 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) loss from liabilities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the periods indicated:

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Nine months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Total realized and unrealized (gains) losses included in net (income) loss: | | | | |
| Net investment income | $ | $ | $ | $ |
| Net investment (gains) losses | (50) | 90 | 1 | 38 |
| Total | $ (50) | $ 90 | $ 1 | $ 38 |
| Total (gains) losses included in net (income) loss attributable to liabilities still held: | | | | |
| Net investment income | $ | $ | $ | $ |
| Net investment (gains) losses | (46) | 88 | 88 | 40 |
| Total | $ (46) | $ 88 | $ 88 | $ 40 |

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, equity and trading securities and purchases, issuances and settlements of derivative instruments.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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) loss in the tables presented above.

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, 2016:

| (Amounts in millions) | Valuation technique | Fair value | Unobservable input | Range | Weighted-average |
|---|---|---|---|---|---|
| Policyholder account balances: | | | | | |
| | | | Withdrawal utilization rate | % - 99% | 68% |
| | | | Lapse rate | % - 15% | 6% |
| | | | Non-performance risk (credit spreads) | 40bps - 85bps | 71bps |
| GMWB embedded derivatives [1] | Stochastic cash flow model | $439 | Equity index volatility | 15% - 24% | 21% |
| Fixed index annuity embedded derivatives | Option budget method | $364 | Expected future interest credited | % - 2% | 2% |
| Indexed universal life embedded derivatives | Option budget method | $13 | Expected future interest credited | 4% - 9% | 6% |

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

**(7) Deferred Acquisition Costs**

The following table presents the activity impacting deferred acquisition costs ( DAC ) for the dates indicated:

**As of or for the nine months ended September 30,**

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Unamortized beginning balance | $ 4,569 | $ 5,200 |
| Impact of foreign currency translation | 8 | (20) |
| Costs deferred | 124 | 228 |
| Amortization, net of interest accretion | (257) | (266) |
| Impairment | | (455) |
| Unamortized ending balance | 4,444 | 4,687 |
| Accumulated effect of net unrealized investment (gains) losses | (462) | (246) |
| Ending balance | $ 3,982 | $ 4,441 |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

We regularly review DAC to determine if it is recoverable from future income. In the second quarter of 2016, we performed our loss recognition testing and determined that we had a premium deficiency in our fixed immediate annuity products. The results of the test were primarily driven by the low interest rate environment in the second quarter of 2016. As a result, as of June 30, 2016, we wrote off the entire DAC balance for our fixed immediate annuity products of $14 million through amortization and increased our future policy benefit reserves by $18 million. In the third quarter of 2016, driven by aging of the in-force and the low interest rate environment, we determined that an additional premium deficiency existed in our fixed immediate annuity products that resulted in a further increase to our future policy benefit reserves of $6 million. As of September 30, 2016, we believe all of our other businesses had sufficient future income and therefore the related DAC was recoverable.

On September 30, 2015, Genworth Life and Annuity Insurance Company ( GLAIC ), our indirect wholly-owned subsidiary, entered into a Master Agreement (the Master Agreement ) for a life block transaction with Protective Life Insurance Company ( Protective Life ). Pursuant to the Master Agreement, GLAIC and Protective Life agreed to enter into a reinsurance agreement (the Reinsurance Agreement ), under the terms of which Protective Life would coinsure certain term life insurance business of GLAIC, net of third-party reinsurance. The Reinsurance Agreement was entered into in January 2016. In connection with entering into the Master Agreement, we recorded a DAC impairment of $455 million as a result of loss recognition testing of certain term life insurance policies as part of this life block transaction.

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

The following table sets forth our recorded liability for policy and contract claims by business as of the dates indicated:

| (Amounts in millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Long-term care insurance | $ 7,654 | $ 6,749 |
| U.S. mortgage insurance | 658 | 849 |
| Australia mortgage insurance | 215 | 165 |
| Life insurance | 195 | 202 |
| Canada mortgage insurance | 112 | 87 |
| Runoff | 16 | 18 |
| Fixed annuities | 12 | 18 |
| Other mortgage insurance | 7 | 7 |
| Total liability for policy and contract claims | $ 8,869 | $ 8,095 |

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.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Long-term care insurance*

The following table sets forth changes in the liability for policy and contract claims for our long-term care insurance business for the dates indicated:

| (Amounts in millions) | As of or for the nine months ended September 30, 2016 | 2015 |
|---|---|---|
| Beginning balance | $ 6,749 | $ 6,216 |
| Less reinsurance recoverables | (2,055) | (1,926) |
| Net beginning balance | 4,694 | 4,290 |
| Incurred related to insured events of: | | |
| Current year | 1,546 | 1,241 |
| Prior years | 378 | 6 |
| Total incurred | 1,924 | 1,247 |
| Paid related to insured events of: | | |
| Current year | (82) | (75) |
| Prior years | (1,160) | (1,050) |
| Total paid | (1,242) | (1,125) |
| Interest on liability for policy and contract claims | 188 | 172 |
| Net ending balance | 5,564 | 4,584 |
| Add reinsurance recoverables | 2,090 | 1,999 |
| Ending balance | $ 7,654 | $ 6,583 |

As of September 30, 2016, the liability for policy and contract claims increased $905 million in our long-term care insurance business largely from the completion of our annual review of assumptions in the third quarter of 2016 which increased reserves by $460 million and increased reinsurance recoverables by $25 million. The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in the current year. Based on our annual review of our long-term care insurance claim reserves, which included an additional year of claims experience since our last annual review in the third quarter of 2015, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. The primary impact of assumption changes was from an overall lowering of claim termination rate assumptions for longer duration claims, particularly for reimbursement claims. We also updated our claim termination rate assumptions to reflect differences between product types, separating our indemnity and reimbursement blocks that were previously combined, and modestly refined our utilization rate assumptions and methodologies as well as refined our methodology primarily related to the calculation of incurred but not reported reserves to better reflect the aging of the in-force blocks.

For the nine months ended September 30, 2016, the incurred amount of $378 million related to insured events of prior years increased largely as a result of the completion of our annual review of our long-term care insurance claim reserves, as described above, which resulted in recording higher reserves of $305 million, net of reinsurance recoverables of $25 million. In addition, we recorded $39 million of unfavorable adjustments in the second quarter of 2016, which included refinements to the calculations of claim reserves.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## (9) Borrowings and Other Financings

*(a) Short-Term Borrowings*

*Revolving Credit Facilities*

On May 20, 2016, Genworth MI Canada Inc. (  Genworth Canada  ), our majority-owned subsidiary, entered into a CAD$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. 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 credit agreement. Genworth Canada  s credit facility includes customary representations, warranties, covenants, terms and conditions. As of September 30, 2016, there was no amount outstanding under Genworth Canada  s credit facility.

In April 2016, Genworth Holdings terminated its $300 million multicurrency revolving credit facility, prior to its September 26, 2016 maturity date. There were no amounts outstanding under the credit facility at the time of termination.

*(b) Long-Term Borrowings*

The following table sets forth total long-term borrowings as of the dates indicated:

| **(Amounts in millions)** | **September 30, 2016** | **December 31, 2015** |
|---|---|---|
| **Genworth Holdings** [1] | | |
| 8.625% Senior Notes, due 2016 | $ | $ 298 |
| 6.52% Senior Notes, due 2018 | 597 | 598 |
| 7.70% Senior Notes, due 2020 | 397 | 397 |
| 7.20% Senior Notes, due 2021 | 381 | 389 |
| 7.625% Senior Notes, due 2021 | 705 | 724 |
| 4.90% Senior Notes, due 2023 | 399 | 399 |
| 4.80% Senior Notes, due 2024 | 400 | 400 |
| 6.50% Senior Notes, due 2034 | 297 | 297 |
| 6.15% Fixed-to-Floating Rate Junior Subordinated Notes, due 2066 | 598 | 598 |
| Subtotal | 3,774 | 4,100 |
| Bond consent fees | (40) | |
| Deferred borrowing charges | (20) | (21) |

| | | | | |
|---|---|---|---|---|
| Total Genworth Holdings | | 3,714 | | 4,079 |
| **Canada** [2] | | | | |
| 5.68% Senior Notes, due 2020 | | 210 | | 199 |
| 4.24% Senior Notes, due 2024 | | 122 | | 116 |
| Subtotal | | 332 | | 315 |
| Deferred borrowing charges | | (2) | | (2) |
| Total Canada | | 330 | | 313 |
| **Australia** [3] | | | | |
| Floating Rate Junior Notes, due 2021 | | | | 36 |
| Floating Rate Junior Notes, due 2025 | | 153 | | 146 |
| Subtotal | | 153 | | 182 |
| Deferred borrowing charges | | (3) | | (4) |
| Total Australia | | 150 | | 178 |
| Total | $ | 4,194 | $ | 4,570 |

(1) We have the option to redeem all or a portion of the senior notes at any time with notice to the noteholders at a price equal to the greater of 100% of principal or the sum of the present value of the remaining scheduled payments of principal and interest discounted at the then-current treasury rate plus an applicable spread.

(2) Senior notes issued by Genworth Canada, our majority-owned subsidiary.

(3) Subordinated floating rate notes issued by Genworth Financial Mortgage Insurance Pty Limited, our indirect wholly-owned subsidiary.

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Genworth Holdings*

In January 2016, Genworth Holdings redeemed $298 million of its 8.625% senior notes due 2016 issued in December 2009 (the 2016 Notes ) and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest.

During the three months ended March 31, 2016, we also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

On March 18, 2016, Genworth Holdings received the requisite consents, pursuant to a solicitation of consents (the Consent Solicitation ), to amend the indenture dated as of June 15, 2004, by and between Genworth Holdings and The Bank of New York Mellon Trust Company, N.A. (the Trustee ), as successor to JP Morgan Chase Bank, N.A., as amended and supplemented from time to time (as so amended and supplemented, the Senior Notes Indenture ) and the indenture dated as of November 14, 2006, by and between Genworth Holdings and the Trustee, as amended and supplemented from time to time (as so amended and supplemented, the Subordinated Notes Indenture and together with the Senior Notes Indenture, the Indentures ).

On March 18, 2016, Genworth Holdings, Genworth Financial, as guarantor, and the Trustee entered into Supplemental Indenture No. 12 to the Senior Notes Indenture and the Third Supplemental Indenture to the Subordinated Notes Indenture (the Supplemental Indentures ) that amended the Senior Notes Indenture and the Subordinated Notes Indenture, respectively, to (i) exclude Genworth Life Insurance Company and Genworth Life Insurance Company of New York, which operate our long-term care insurance business, from the event of default provisions of the Indentures (such amendment also previously excluded Brookfield Life and Annuity Insurance Company Limited until it merged into Genworth Life Insurance Company in October 2016) and (ii) clarify that one or more transactions disposing of any or all of the Genworth Holdings long-term care and other life insurance businesses and assets (a Life Sale ) would not constitute a disposition of all or substantially all of Genworth Holdings assets under the Indentures, provided that in order to rely on that clarification, the assets of our U.S. Mortgage Insurance segment would be contributed to Genworth Holdings and 80% of any Net Cash Proceeds, as defined in the Supplemental Indentures, to us from any Life Sale would be used to reduce outstanding indebtedness.

The Supplemental Indentures became operative on March 22, 2016 upon the payment of the applicable consent fees payable under the terms of the Consent Solicitation. We paid total fees related to the Consent Solicitation of approximately $61 million, including bond consent fees of $43 million, which were deferred, as well as broker, advisor and investment banking fees of $18 million, which were expensed, in the first quarter of 2016.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Australia*

In June 2016, Genworth Financial Mortgage Insurance Pty Limited, our indirect majority-owned subsidiary, redeemed all of its outstanding AUD$50 million of subordinated floating rate notes with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 4.75% due 2021.

*(c) Non-Recourse Funding Obligations*

The following table sets forth the non-recourse funding obligations (surplus notes) of our wholly-owned, special purpose consolidated captive insurance subsidiaries as of the dates indicated:

| (Amounts in millions) Issuance | September 30, 2016 | December 31, 2015 |
|---|---|---|
| River Lake Insurance Company [(a)], due 2033 | $ | $ 570 |
| River Lake Insurance Company [(b)], due 2033 | | 405 |
| River Lake Insurance Company II [(a)], due 2035 | | 192 |
| River Lake Insurance Company II [(b)], due 2035 | | 453 |
| Rivermont Life Insurance Company I [(a)], due 2050 | 315 | 315 |
| Subtotal | 315 | 1,935 |
| Deferred borrowing charges | (5) | (15) |
| Total | $ 310 | $ 1,920 |

(a) Accrual of interest based on one-month London Interbank Offered Rate ( LIBOR ) that resets every 28 days plus a fixed margin.

(b) Accrual of interest based on one-month LIBOR that resets on a specified date each month plus a contractual margin.

During the three months ended March 31, 2016, in connection with a life block transaction, River Lake Insurance Company, our indirect wholly-owned subsidiary, redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake Insurance Company II, our indirect wholly-owned subsidiary, redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs.

*(d) Repurchase agreements and securities lending activity*

*Repurchase agreements*

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. Repurchase agreements were treated as collateralized financing transactions and were carried at the amounts at which the securities were subsequently reacquired, including accrued interest, as specified in the respective agreement. The market value of securities to be repurchased were monitored and collateral levels adjusted where appropriate to protect the parties against credit exposure. Cash received was invested in fixed maturity securities. As of December 31, 2015, the fair value of securities pledged under the repurchase program was $231 million and the repurchase obligation of $229 million was included in other liabilities in the consolidated balance sheet. As of September 30, 2016, the fair value of securities pledged under the repurchase program and the repurchase obligation was zero as they matured during the three months ended June 30, 2016.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Securities lending activity*

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.

Under the securities lending program in the United States, the borrower is required to provide collateral, which can consist of cash or government securities, on a daily basis in amounts equal to or exceeding 102% of the value of the loaned securities. Currently, we only accept cash collateral from borrowers under the program. Cash collateral received by us on securities lending transactions is reflected in other invested assets with an offsetting liability recognized in other liabilities for the obligation to return the collateral. Any cash collateral received is reinvested by our custodian based upon the investment guidelines provided within our agreement. In the United States, the reinvested cash collateral is primarily invested in a money market fund approved by the National Association of Insurance Commissioners, U.S. and foreign government securities, U.S. government agency securities, asset-backed securities and corporate debt securities. As of September 30, 2016 and December 31, 2015, the fair value of securities loaned under our securities lending program in the United States was $401 million and $334 million, respectively. As of September 30, 2016 and December 31, 2015, the fair value of collateral held under our securities lending program in the United States was $417 million and $347 million, respectively, and the offsetting obligation to return collateral of $417 million and $347 million, respectively, was included in other liabilities in the consolidated balance sheets. We did not have any non-cash collateral provided by the borrowers in our securities lending program in the United States as of September 30, 2016 and December 31, 2015.

Under our securities lending program in Canada, the borrower is required to provide collateral consisting of government securities on a daily basis in amounts equal to or exceeding 105% of the fair value of the applicable securities loaned. Securities received from counterparties as collateral are not recorded on our consolidated balance sheet given that the risk and rewards of ownership is not transferred from the counterparties to us in the course of such transactions. Additionally, there was no cash collateral because it is not permitted as an acceptable form of collateral under the program. In Canada, the lending institution must be included on the approved Securities Lending Borrowers List with the Canadian regulator and the intermediary must be rated at least AA- by Standard & Poor s Financial Services LLC. As of September 30, 2016 and December 31, 2015, the fair value of securities loaned under our securities lending program in Canada was $364 million and $340 million, respectively.

*Risks associated with repurchase agreements and securities lending programs*

Our repurchase agreement and securities lending programs expose us to liquidity risk if we did not have enough cash or collateral readily available to return to the counterparty when required to do so under the agreements. We manage this risk by regularly monitoring our available sources of cash and collateral to ensure we can meet short-term liquidity demands under normal and stressed scenarios.

We are also exposed to credit risk in the event of default of our counterparties or changes in collateral values. This risk is significantly reduced because our programs require over collateralization and collateral exposures are trued up on a daily basis. We manage this risk by using multiple counterparties and ensuring that changes in required collateral are monitored and adjusted daily. We also monitor the creditworthiness, including credit ratings, of our counterparties on a regular basis.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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*Contractual maturity*

The following tables present the remaining contractual maturity of the agreements as of the dates indicated:

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| **(Amounts in millions)** | **Overnight and continuous** | **Up to 30 days** | **31 - 90 days** | **Greater than 90 days** | **Total** |
| Repurchase agreements: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ | $ | $ | $ | $ |
| Securities lending: | | | | | |
| Fixed maturity securities: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | 78 | | | | 78 |
| Non-U.S. government | 61 | | | | 61 |
| U.S. corporate | 163 | | | | 163 |
| Non-U.S. corporate | 110 | | | | 110 |
| Subtotal, fixed maturity securities | 412 | | | | 412 |
| Equity securities | 5 | | | | 5 |
| Total securities lending | 417 | | | | 417 |
| Total repurchase agreements and securities lending | $ 417 | $ | $ | $ | $ 417 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| **(Amounts in millions)** | **Overnight and continuous** | **Up to 30 days** | **31 - 90 days** | **Greater than 90 days** | **Total** |
| Repurchase agreements: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ | $ 58 | $ 25 | $ 146 | $ 229 |
| Securities lending: | | | | | |
| Fixed maturity securities: | | | | | |
| | 18 | | | | 18 |

| | | | | | |
|---|---|---|---|---|---|
| U.S. government, agencies and government-sponsored enterprises | | | | | |
| Non-U.S. government | 39 | | | | 39 |
| U.S. corporate | 95 | | | | 95 |
| Non-U.S. corporate | 190 | | | | 190 |
| Subtotal, fixed maturity securities | 342 | | | | 342 |
| Equity securities | 5 | | | | 5 |
| Total securities lending | 347 | | | | 347 |
| Total repurchase agreements and securities lending | $ 347 | $ 58 | $ 25 | $ 146 | $ 576 |

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**(10) Income Taxes**

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

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | | **2015** | | **2016** | | **2015** | |
| Pre-tax income (loss) | $ (125) | | $ (351) | | $ 376 | | $ 188 | |
| Statutory U.S. federal income tax rate | $ (44) | 35.0% | $ (123) | 35.0% | $ 132 | 35.0% | $ 66 | 35.0% |
| Increase (reduction) in rate resulting from: | | | | | | | | |
| State income tax, net of federal income tax effect | | | (1) | 0.4 | 1 | 0.2 | 3 | 1.4 |
| Benefit on tax favored investments | 1 | (0.7) | (9) | 2.5 | (2) | (0.5) | (14) | (7.2) |
| Effect of foreign operations | 5 | (3.9) | (3) | 0.8 | (12) | (3.3) | (33) | (17.5) |
| Non-deductible expenses | (1) | 0.5 | | | (1) | (0.1) | 1 | 0.6 |
| Interest on uncertain tax positions | | | 1 | (0.2) | | | 1 | 0.4 |
| Valuation allowance | 265 | (212.9) | | | 240 | 63.8 | | |
| Stock-based compensation | 2 | (1.8) | 2 | (0.5) | 5 | 1.4 | 4 | 2.0 |
| Loss on sale of business | | | | | (1) | (0.2) | | |
| Other, net | (6) | 4.8 | (1) | 0.1 | (7) | (1.8) | (1) | (0.4) |
| Effective rate | $ 222 | (179.0)% | $ (134) | 38.1% | $ 355 | 94.5% | $ 27 | 14.3% |

The effective tax rate for the three and nine months ended September 30, 2016 was impacted by a valuation allowance of $265 million recorded on deferred tax assets. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership. The effective tax rate for the nine months ended September 30, 2016 was also impacted by the reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe due to taxable gains supporting the recognition of these deferred tax assets in the current year.

**(11) Segment Information**

Beginning in the fourth quarter of 2015, we changed how we review our operating businesses and no longer have separate reporting divisions. Under our new structure, 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 are no longer 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. Financial information has been updated for all periods to reflect the reorganized segment reporting structure.

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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 (loss) and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss) available to Genworth Financial, Inc. s common stockholders. We define net operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding the after-tax effects of income 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 net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Infrequent or unusual non-operating items are also excluded from net 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 net operating income (loss) available to Genworth Financial, Inc. s common stockholders, and measures that are derived from or incorporate net 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 net 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 net 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. Net 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 net operating income (loss) available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

Adjustments to reconcile net income (loss) attributable to Genworth Financial, Inc.  s common stockholders and net operating income (loss) available to Genworth Financial, Inc.  s common stockholders assume a 35% tax

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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rate (unless otherwise indicated) and are net of the portion attributable to noncontrolling interests. Net investment gains (losses) are also adjusted for DAC and other intangible amortization and certain benefit reserves.

In June 2016, we completed the sale of our term life insurance new business platform and recorded a pre-tax gain of $12 million. In May 2016, we completed the sale of our mortgage insurance business in Europe and recorded an additional pre-tax loss of $2 million. In the first quarter of 2016, we recorded an estimated pre-tax loss of $7 million and a tax benefit of $27 million related to the planned sale of our mortgage insurance business in Europe. We recognized a tax charge of $7 million in the third quarter of 2015 from potential business portfolio changes related to the sale of this business. These transactions were excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders for the periods presented as they related to a gain (loss) on the sale of businesses.

In June 2016, we settled restricted borrowings of $70 million related to a securitization entity and recorded a $64 million pre-tax gain related to the early extinguishment of debt. In January 2016, we paid a pre-tax make-whole expense of $20 million related to the early redemption of Genworth Holdings 2016 Notes. We also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million in the first quarter of 2016. In the third quarter of 2015, we paid an early redemption payment of approximately $1 million, net of the portion attributable to noncontrolling interests, related to the early redemption of Genworth Financial Mortgage Insurance Pty Limited s notes that were scheduled to mature in 2021. In the third quarter of 2015, we also repurchased approximately $50 million principal amount of Genworth Holdings, Inc. s notes with various maturity dates for a pre-tax loss of $1 million. These transactions were excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders for the periods presented as they related to a gain (loss) on the early extinguishment of debt.

In the first quarter of 2016, we completed a life block transaction resulting in a pre-tax loss of $9 million in connection with the early extinguishment of non-recourse funding obligations. In the third quarter of 2015, we recorded a pre-tax DAC impairment of $455 million on certain term life insurance policies in connection with entering into an agreement to complete a life block transaction.

In the third, second and first quarters of 2016, we recorded a pre-tax expense of $2 million, $5 million and $15 million, respectively, related to restructuring costs as part of an expense reduction plan as we evaluate and appropriately size our organizational needs and expenses. In the second quarter of 2015, we also recorded a pre-tax expense of $3 million related to restructuring costs.

There were no infrequent or unusual items excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders during the periods presented other than fees incurred during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of $18 million for broker, advisor and investment banking fees.

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**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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenues: | | | | |
| U.S. Mortgage Insurance segment | $ 186 | $ 161 | $ 537 | $ 497 |
| Canada Mortgage Insurance segment | 156 | 124 | 463 | 429 |
| Australia Mortgage Insurance segment | 115 | 122 | 333 | 360 |
| U.S. Life Insurance segment: | | | | |
| Long-term care insurance | 980 | 949 | 3,051 | 2,769 |
| Life insurance | 418 | 455 | 953 | 1,419 |
| Fixed annuities | 218 | 221 | 613 | 683 |
| U.S. Life Insurance segment | 1,616 | 1,625 | 4,617 | 4,871 |
| Runoff segment | 84 | 53 | 218 | 209 |
| Corporate and Other activities | (7) | 15 | 3 | 26 |
| Total revenues | $ 2,150 | $ 2,100 | $ 6,171 | $ 6,392 |

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

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Nine months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | | |
| U.S. Mortgage Insurance segment | $ 67 | $ 37 | $ 189 | $ 138 |
| Canada Mortgage Insurance segment | 36 | 38 | 107 | 115 |
| Australia Mortgage Insurance segment | 14 | 21 | 48 | 80 |
| U.S. Life Insurance segment: | | | | |
| Long-term care insurance | (270) | (10) | (199) | 10 |
| Life insurance | 48 | 31 | 110 | 93 |
| Fixed annuities | 15 | 19 | 28 | 75 |
| U.S. Life Insurance segment | (207) | 40 | (61) | 178 |
| Runoff segment | 12 | (4) | 22 | 16 |
| Corporate and Other activities | (327) | (68) | (484) | (190) |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders | (405) | 64 | (179) | 337 |
| Adjustments to net operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment gains (losses), net [1] | 18 | (33) | 38 | (29) |
| Gains (losses) on sale of businesses | | | 3 | |
| Gains (losses) on early extinguishment of debt, net [2] | | (2) | 48 | (2) |
| Gains (losses) from life block transactions | | (455) | (9) | (455) |
| Expenses related to restructuring | (2) | | (22) | (3) |
| Fees associated with bond consent solicitation | | | (18) | |
| Taxes on adjustments | (6) | 163 | 9 | 163 |

| | | | | |
|---|---|---|---|---|
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders | (395) | (263) | (130) | 11 |
| Add: income from continuing operations attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Income (loss) from continuing operations | (347) | (217) | 21 | 161 |
| Income (loss) from discontinued operations, net of taxes | 15 | (21) | (25) | (334) |
| Net loss | (332) | (238) | (4) | (173) |
| Less: net income attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (380) | $ (284) | $ (155) | $ (323) |

(1) For the three months ended September 30, 2016 and 2015, net investment gains (losses) were adjusted for DAC and other intangible amortization and certain benefit reserves of zero and $10 million, respectively, and adjusted for net investment (gains) losses attributable to noncontrolling interests of $(2) million and $8 million, respectively. For the nine months ended September 30, 2016 and 2015, net investment gains (losses) were adjusted for DAC and other intangible amortization and certain benefit reserves of $15 million and $24 million, respectively, and adjusted for net investment (gains) losses attributable to noncontrolling interests of $(8) million and $6 million, respectively.

(2) For the three and nine months ended September 30, 2015, (gains) losses on the early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of $(1) million.

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

| (Amounts in millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets: | | |
| U.S. Mortgage Insurance segment | $ 2,667 | $ 2,899 |
| Canada Mortgage Insurance segment | 4,983 | 4,520 |
| Australia Mortgage Insurance segment | 2,794 | 2,987 |
| U.S. Life Insurance segment | 85,016 | 79,530 |
| Runoff segment | 11,503 | 12,115 |
| Corporate and Other activities | 1,889 | 4,253 |
| Segment assets from continuing operations | 108,852 | 106,304 |
| Assets held for sale | | 127 |
| Total assets | $ 108,852 | $ 106,431 |

**(12) 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, 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 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 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 a complaint filed in July 2016, Genworth Financial, Inc., Genworth Life and Annuity Insurance Company, Genworth Life Insurance Company of New York and Genworth Life Insurance Company were named in a putative class action lawsuit captioned *Estate of Helen F. Walsh, Deceased v. Genworth Financial, Inc., et al*, in the United States District Court for the Northern District of Ohio, Eastern Division. The complaint alleged

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breach of contract involving optional inflation increase benefit riders on certain long-term care insurance policies and sought unspecified actual damages, declaratory relief, attorneys fees, costs and pre-judgment and post-judgment interest. On September 23, 2016, we filed a motion to transfer the action to Connecticut and a motion to dismiss the action. Pursuant to stipulation, on October 14, 2016, the court ordered the matter dismissed without prejudice.

In August 2014, Genworth Financial, Inc., its current chief executive officer and its then current chief financial officer were named in a putative class action lawsuit captioned *Manuel Esguerra v. Genworth Financial, Inc.*, *et al*, in the United States District Court for the Southern District of New York. Plaintiff alleged securities law violations involving certain disclosures in 2013 and 2014 concerning Genworth s long-term care insurance reserves. The lawsuit sought unspecified compensatory damages, costs and expenses, including counsel fees and expert fees. In October 2014, a putative class action lawsuit captioned *City of Pontiac General Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, was filed in the United States District Court for the Eastern District of Virginia. This lawsuit names the same defendants, alleges the same securities law violations, seeks the same damages and covers the same class as the *Esguerra* lawsuit. Following the filing of the *City of Pontiac* lawsuit, the *Esguerra* lawsuit was voluntarily dismissed without prejudice allowing the *City of Pontiac* lawsuit to proceed. In the *City of Pontiac* lawsuit, the United States District Court for the Eastern District of Virginia appointed Her Majesty the Queen in Right of Alberta and Fresno County Employees Retirement Association as lead plaintiffs and designated the caption of the action as *In re Genworth Financial, Inc. Securities Litigation.* On December 22, 2014, the lead plaintiffs filed an amended complaint. On February 5, 2015, we filed a motion to dismiss plaintiffs amended complaint. On May 1, 2015, the court denied the motion to dismiss. We engaged in mediation in the fourth quarter of 2015, continuing into the first quarter of 2016, and accrued $25 million in connection with this matter during the fourth quarter of 2015, which was the amount of our self-insured retention on our executive and organizational liability insurance program. On March 11, 2016, in connection with the mediation, we reached an agreement in principle to settle the action. On April 1, 2016, the parties entered into a stipulation and agreement of settlement. The settlement provides for a full release of all defendants in connection with the allegations made in the lawsuit. We believe that the plaintiffs claims are without merit, but we are settling the lawsuit to avoid the burden, risk and expense of further litigation. The agreement provides for a settlement payment to the class of $219 million, inclusive of all plaintiffs attorneys fees and expenses and settlement costs, of which $150 million was paid by our insurance carriers, and $69 million pre-tax was paid by Genworth. Our payment was made into an escrow account during the first quarter of 2016. We also incurred additional legal fees and expenses of approximately $10 million pre-tax, for a total additional pre-tax incurred amount of $79 million in the first quarter of 2016. On April 13, 2016, the court granted plaintiffs motion for preliminary approval of the settlement, provisional certification of the class for settlement purposes only, and issuance of notice to settlement class members. The court held a hearing on July 20, 2016 and approved the settlement. On September 26, 2016, the court entered final judgment in the action. The time to appeal the entry of this judgment expired on October 26, 2016. As a result of the approved settlement, all coverage available to Genworth under our 2014 executive and organizational liability insurance program was exhausted. Therefore, Genworth does not have coverage under the program to pay any future settlements or judgments in relation to litigation brought during the 2014 policy year, including the *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, case discussed below.

In April 2014, Genworth Financial, Inc., its former chief executive officer and its then current chief financial officer were named in a putative class action lawsuit captioned *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, in the United States District Court for the Southern District of New York. Plaintiff alleges securities law violations involving certain disclosures in 2012 concerning Genworth s Australian mortgage insurance business, including our plans for an initial public offering of the business. The lawsuit seeks unspecified damages, costs and attorneys fees and such equitable/injunctive relief as the court may

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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deem proper. The United States District Court for the Southern District of New York appointed City of Hialeah Employees Retirement System and New Bedford Contributory Retirement System as lead plaintiffs and designated the caption of the action as *In re Genworth Financial, Inc. Securities Litigation.* On October 3, 2014, the lead plaintiffs filed an amended complaint. On December 2, 2014, we filed a motion to dismiss plaintiffs amended complaint. On March 25, 2015, the United States District Court for the Southern District of New York denied the motion but entered an order dismissing the amended complaint with leave to replead. On April 17, 2015, plaintiffs filed a second amended complaint. We filed a motion to dismiss the second amended complaint and on June 16, 2015, the court denied the motion to dismiss. On January 22, 2016, we filed a motion for reconsideration of the court s June 16, 2015 order denying our motion to dismiss which the court denied on March 3, 2016. On January 29, 2016, plaintiffs filed a motion for class certification which we opposed. On March 7, 2016, the court granted plaintiffs motion for class certification. We intend to vigorously defend this action. As discussed above, we have exhausted all coverage under our 2014 executive and organizational liability insurance program applicable to this case; therefore, there is no insurance coverage for Genworth with respect to any settlement or judgment amount related to this litigation.

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 initial public offering 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.

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 initial public offering of the business, and seeks unspecified damages, costs, attorneys fees and such equitable relief as the court may deem proper. We intend to file a motion to dismiss.

In November 2016, Genworth Financial, Inc., its chief executive officer and its current board of directors were named in a putative class action lawsuit captioned *Faverman v. Genworth Financial, Inc., et al*, in the

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

United States District Court for the Eastern District of Virginia, Richmond Division. Plaintiff alleges breach of fiduciary duty and seeks to enjoin the acquisition of the publicly owned shares of Genworth Financial, Inc. common stock by Asia Pacific Global Capital Co., Ltd., through its wholly-owned subsidiary, Asia Pacific Global Capital USA Corporation. The lawsuit seeks unspecified rescissory damages, costs, attorneys fees, experts fees and such other and further equitable relief as the court may deem proper. We intend to file a motion to dismiss.

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, 2016, we were committed to fund $188 million in limited partnership investments, $106 million in U.S. commercial mortgage loan investments and $43 million in private placement investments.

**(13) Changes in Accumulated Other Comprehensive Income (Loss)**

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

| **(Amounts in millions)** | **Net unrealized investment gains (losses)** [1] | **Derivatives qualifying as hedges** [2] | **Foreign currency translation and other adjustments** | **Total** |
|---|---|---|---|---|
| Balances as of July 1, 2016 | $ 2,789 | $ 2,439 | $ (140) | $ 5,088 |
| OCI before reclassifications | 86 | 72 | (1) | 157 |
| Amounts reclassified from (to) OCI | (9) | (18) | | (27) |
| Current period OCI | 77 | 54 | (1) | 130 |
| | 2,866 | 2,493 | (141) | 5,218 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balances as of September 30, 2016 before noncontrolling interests | | | | | | | |
| Less: change in OCI attributable to noncontrolling interests | | 6 | | | | 10 | 16 |
| Balances as of September 30, 2016 | $ | 2,860 | $ | 2,493 | $ | (151) | $ 5,202 |

(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.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| (Amounts in millions) | Net unrealized investment gains (losses) [1] | Derivatives qualifying as hedges [2] | Foreign currency translation and other adjustments | Total |
|---|---|---|---|---|
| Balances as of July 1, 2015 | $ 1,628 | $ 1,913 | $ (232) | $ 3,309 |
| OCI before reclassifications | 79 | 229 | (302) | 6 |
| Amounts reclassified from (to) OCI | 8 | (12) | | (4) |
| Current period OCI | 87 | 217 | (302) | 2 |
| Balances as of September 30, 2015 before noncontrolling interests | 1,715 | 2,130 | (534) | 3,311 |
| Less: change in OCI attributable to noncontrolling interests | (16) | | (151) | (167) |
| Balances as of September 30, 2015 | $ 1,731 | $ 2,130 | $ (383) | $ 3,478 |

(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.

| (Amounts in millions) | Net unrealized investment gains (losses) [1] | Derivatives qualifying as hedges [2] | Foreign currency translation and other adjustments | Total |
|---|---|---|---|---|
| Balances as of January 1, 2016 | $ 1,254 | $ 2,045 | $ (289) | $ 3,010 |
| OCI before reclassifications | 1,692 | 507 | 223 | 2,422 |
| Amounts reclassified from (to) OCI | (62) | (59) | | (121) |
| Current period OCI | 1,630 | 448 | 223 | 2,301 |
| Balances as of September 30, 2016 before noncontrolling interests | 2,884 | 2,493 | (66) | 5,311 |

| | | | | |
|---|---|---|---|---|
| Less: change in OCI attributable to noncontrolling interests | 24 | | 85 | 109 |
| Balances as of September 30, 2016 | $ 2,860 | $ 2,493 | $ (151) | $ 5,202 |

(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.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| (Amounts in millions) | Net unrealized investment gains (losses) (1) | Derivatives qualifying as hedges (2) | Foreign currency translation and other adjustments | Total |
|---|---|---|---|---|
| Balances as of January 1, 2015 | $ 2,453 | $ 2,070 | $ (77) | $ 4,446 |
| OCI before reclassifications | (727) | 99 | (619) | (1,247) |
| Amounts reclassified from (to) OCI | (1) | (39) | | (40) |
| Current period OCI | (728) | 60 | (619) | (1,287) |
| Balances as of September 30, 2015 before noncontrolling interests | 1,725 | 2,130 | (696) | 3,159 |
| Less: change in OCI attributable to noncontrolling interests | (6) | | (313) | (319) |
| Balances as of September 30, 2015 | $ 1,731 | $ 2,130 | $ (383) | $ 3,478 |

(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 $5 million and $31 million, respectively, net of taxes of $2 million and $14 million, respectively, related to a net unrecognized postretirement benefit obligation as of September 30, 2016 and 2015. Amount also included taxes of $(37) million and $(93) million, respectively, related to foreign currency translation adjustments as of September 30, 2016 and 2015.

**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 accumulated other comprehensive income (loss) Three months ended September 30, 2016** | **2015** | **Nine months ended September 30, 2016** | **2015** | **Affected line item in the consolidated statements of income** |
|---|---|---|---|---|---|
| Net unrealized investment (gains) losses: | | | | | |
| Unrealized (gains) losses on investments [1] | $ (13) | $ 13 | $ (95) | $ (1) | Net investment (gains) losses |
| Provision for income taxes | 4 | (5) | 33 | | Provision for income taxes |
| Total | $ (9) | $ 8 | $ (62) | $ (1) | |
| Derivatives qualifying as hedges: | | | | | |
| Interest rate swaps hedging assets | $ (27) | $ (22) | $ (80) | $ (61) | Net investment income |
| Interest rate swaps hedging assets | | | (1) | | Net investment (gains) losses |
| Inflation indexed swaps | | 5 | (2) | 2 | Net investment income |
| Inflation indexed swaps | | | (7) | | Net investment (gains) losses |
| Forward bond purchase commitments | | (1) | | (1) | Net investment income |
| Provision for income taxes | 9 | 6 | 31 | 21 | Provision for income taxes |
| Total | $ (18) | $ (12) | $ (59) | $ (39) | |

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

**(14) Sale of Businesses**

*European mortgage insurance business*

As discussed in note 1, on May 9, 2016, GMICO completed the sale of our European mortgage insurance business to AmTrust Financial Services, Inc. and received net proceeds of approximately $50 million. As a result of the completion of the sale, we recorded an additional pre-tax loss of $2 million in the second quarter of 2016. In the first quarter of 2016, we also recorded an estimated pre-tax loss of $7 million and a tax benefit of $27 million primarily related to the reversal of a deferred tax valuation allowance for a total net after-tax gain of $18 million in 2016.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The major assets and liability categories of our European mortgage insurance business were as follows as of the dates indicated:

| (Amounts in millions) | September 30, 2016 | December 31, 2015 |
| --- | --- | --- |
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ 195 |
| Other invested assets | | 6 |
| Total investments | | 201 |
| Cash and cash equivalents | | 28 |
| Accrued investment income | | 3 |
| Reinsurance recoverable | | 21 |
| Other assets | | 14 |
| Assets held for sale | | 267 |
| Fair value less closing costs impairment | | (140) |
| Total assets held for sale | $ | $ 127 |
| Liabilities | | |
| Liability for policy and contract claims | $ | $ 56 |
| Unearned premiums | | 58 |
| Other liabilities | | 12 |
| Deferred tax liability | | 1 |
| Liabilities held for sale | $ | $ 127 |

Deferred tax liabilities that result in future taxable or deductible amounts to the remaining consolidated group have been reflected in liabilities of continuing operations and not reflected in liabilities held for sale.

*Lifestyle protection insurance business*

On December 1, 2015, we completed the sale of our lifestyle protection insurance business and received approximately $493 million with net proceeds of approximately $400 million. In the third quarter of 2016, we recorded an after-tax gain of $15 million primarily related to tax items. In the second quarter of 2016, we finalized the closing balance sheet and purchase price adjustments and recorded an additional after-tax loss of $21 million primarily for tax related items. During the first quarter of 2016, we recorded an additional after-tax loss of approximately $19 million primarily related to claim liabilities and taxes we retain. The total additional after-tax loss recorded in 2016 was $25 million.

We retained liabilities for taxes and certain claims and sales practices that occurred while we owned the lifestyle protection insurance business. We have established our current best estimates for these liabilities, where appropriate; however, there may be future adjustments to these estimates.

In connection with the settlement of the U.K. pension plan as part of the sale of our lifestyle protection insurance business, we purchased a group annuity contract. The amounts associated with the group annuity contract were held in a third-party trust for the benefit of the participants until individual annuity contracts were transferred to the participants on September 1, 2016. As a result, the U.K. pension plan was completely settled in September 2016.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Life insurance business*

On June 24, 2016, we completed the sale of our term life insurance new business platform to Pacific Life Insurance Company for a purchase price of $29 million. The sale primarily included a building located in Lynchburg, Virginia and software. As a result of this transaction, we recorded a pre-tax gain of $12 million and taxes of $4 million.

**(15) Condensed Consolidating Financial Information**

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior notes and the holders of the senior notes, on an unsecured unsubordinated basis, 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 the full and punctual payment of all other amounts payable by Genworth Holdings under the senior notes indenture in respect of such senior notes. Genworth Financial also provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding subordinated notes and the holders of the subordinated notes, on an unsecured subordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, the outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the subordinated notes indenture in respect of the 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 have been prepared pursuant to rules regarding the preparation of consolidating financial information of Regulation S-X. The condensed consolidating financial information has been prepared as if the guarantee had been in place during the periods presented herein.

The condensed consolidating financial information presents the condensed consolidating balance sheet information as of September 30, 2016 and December 31, 2015, the condensed consolidating income statement information and the condensed consolidating comprehensive income statement information for the three and nine months ended September 30, 2016 and 2015 and the condensed consolidating cash flows statement information for the nine months ended September 30, 2016 and 2015.

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

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

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating balance sheet information as of September 30, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments: | | | | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ | $ 63,980 | $ (200) | $ 63,780 |
| Equity securities available-for-sale, at fair value | | | 590 | | 590 |
| Commercial mortgage loans | | | 6,017 | | 6,017 |
| Restricted commercial mortgage loans related to securitization entities | | | 134 | | 134 |
| Policy loans | | | 1,751 | | 1,751 |
| Other invested assets | | 102 | 2,582 | (8) | 2,676 |
| Restricted other invested assets related to securitization entities, at fair value | | | 312 | | 312 |
| Investments in subsidiaries | 14,945 | 14,517 | | (29,462) | |
| Total investments | 14,945 | 14,619 | 75,366 | (29,670) | 75,260 |
| Cash and cash equivalents | | 1,065 | 2,013 | | 3,078 |
| Accrued investment income | | | 677 | | 677 |
| Deferred acquisition costs | | | 3,982 | | 3,982 |
| Intangible assets and goodwill | | | 258 | | 258 |
| Reinsurance recoverable | | | 17,542 | | 17,542 |
| Other assets | 3 | 188 | 380 | (1) | 570 |
| Intercompany notes receivable | | 60 | 85 | (145) | |
| Separate account assets | | | 7,485 | | 7,485 |
| Total assets | $ 14,948 | $ 15,932 | $ 107,788 | $ (29,816) | $ 108,852 |
| Liabilities and equity | | | | | |
| Liabilities: | | | | | |
| Future policy benefits | $ | $ | $ 37,405 | $ | $ 37,405 |
| Policyholder account balances | | | 25,867 | | 25,867 |
| Liability for policy and contract claims | | | 8,869 | | 8,869 |
| Unearned premiums | | | 3,464 | | 3,464 |
| Other liabilities | 30 | 305 | 2,955 | (10) | 3,280 |

| | | | | | |
|---|---|---|---|---|---|
| Intercompany notes payable | 60 | 285 | | (345) | |
| Borrowings related to securitization entities | | | 78 | | 78 |
| Non-recourse funding obligations | | | 310 | | 310 |
| Long-term borrowings | | 3,714 | 480 | | 4,194 |
| Deferred tax liability | (13) | (761) | 1,925 | | 1,151 |
| Separate account liabilities | | | 7,485 | | 7,485 |
| Total liabilities | 77 | 3,543 | 88,838 | (355) | 92,103 |
| Equity: | | | | | |
| Common stock | 1 | | | | 1 |
| Additional paid-in capital | 11,959 | 9,097 | 20,251 | (29,348) | 11,959 |
| Accumulated other comprehensive income (loss) | 5,202 | 5,188 | 5,255 | (10,443) | 5,202 |
| Retained earnings | 409 | (1,896) | (8,734) | 10,630 | 409 |
| Treasury stock, at cost | (2,700) | | | | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 14,871 | 12,389 | 16,772 | (29,161) | 14,871 |
| Noncontrolling interests | | | 2,178 | (300) | 1,878 |
| Total equity | 14,871 | 12,389 | 18,950 | (29,461) | 16,749 |
| Total liabilities and equity | $ 14,948 | $ 15,932 | $ 107,788 | $ (29,816) | $ 108,852 |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating balance sheet information as of December 31, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments: | | | | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ 150 | $ 58,247 | $ (200) | $ 58,197 |
| Equity securities available-for-sale, at fair value | | | 310 | | 310 |
| Commercial mortgage loans | | | 6,170 | | 6,170 |
| Restricted commercial mortgage loans related to securitization entities | | | 161 | | 161 |
| Policy loans | | | 1,568 | | 1,568 |
| Other invested assets | | 114 | 2,198 | (3) | 2,309 |
| Restricted other invested assets related to securitization entities, at fair value | | | 413 | | 413 |
| Investments in subsidiaries | 12,814 | 12,989 | | (25,803) | |
| Total investments | 12,814 | 13,253 | 69,067 | (26,006) | 69,128 |
| Cash and cash equivalents | | 1,124 | 4,841 | | 5,965 |
| Accrued investment income | | | 657 | (4) | 653 |
| Deferred acquisition costs | | | 4,398 | | 4,398 |
| Intangible assets and goodwill | | | 357 | | 357 |
| Reinsurance recoverable | | | 17,245 | | 17,245 |
| Other assets | | 199 | 323 | (2) | 520 |
| Intercompany notes receivable | | 2 | 458 | (460) | |
| Deferred tax assets | 25 | 1,038 | (908) | | 155 |
| Separate account assets | | | 7,883 | | 7,883 |
| Assets held for sale | | | 127 | | 127 |
| Total assets | $ 12,839 | $ 15,616 | $ 104,448 | $ (26,472) | $ 106,431 |
| Liabilities and equity | | | | | |
| Liabilities: | | | | | |
| Future policy benefits | $ | $ | $ 36,475 | $ | $ 36,475 |
| Policyholder account balances | | | 26,209 | | 26,209 |

| | | | | | |
|---|---|---|---|---|---|
| Liability for policy and contract claims | | | 8,095 | | 8,095 |
| Unearned premiums | | | 3,308 | | 3,308 |
| Other liabilities | 13 | 279 | 2,722 | (10) | 3,004 |
| Intercompany notes payable | 2 | 658 | | (660) | |
| Borrowings related to securitization entities | | | 179 | | 179 |
| Non-recourse funding obligations | | | 1,920 | | 1,920 |
| Long-term borrowings | | 4,078 | 492 | | 4,570 |
| Deferred tax liability | | | 24 | | 24 |
| Separate account liabilities | | | 7,883 | | 7,883 |
| Liabilities held for sale | | | 127 | | 127 |
| Total liabilities | 15 | 5,015 | 87,434 | (670) | 91,794 |
| Equity: | | | | | |
| Common stock | 1 | | | | 1 |
| Additional paid-in capital | 11,949 | 9,097 | 17,007 | (26,104) | 11,949 |
| Accumulated other comprehensive income (loss) | 3,010 | 3,116 | 3,028 | (6,144) | 3,010 |
| Retained earnings | 564 | (1,612) | (5,134) | 6,746 | 564 |
| Treasury stock, at cost | (2,700) | | | | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 12,824 | 10,601 | 14,901 | (25,502) | 12,824 |
| Noncontrolling interests | | | 2,113 | (300) | 1,813 |
| Total equity | 12,824 | 10,601 | 17,014 | (25,802) | 14,637 |
| Total liabilities and equity | $ 12,839 | $ 15,616 | $ 104,448 | $ (26,472) | $ 106,431 |

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**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, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 1,108 | $ | $ 1,108 |
| Net investment income | (2) | 1 | 810 | (4) | 805 |
| Net investment gains (losses) | | (1) | 21 | | 20 |
| Policy fees and other income | | | 217 | | 217 |
| Total revenues | (2) | | 2,156 | (4) | 2,150 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 1,662 | | 1,662 |
| Interest credited | | | 173 | | 173 |
| Acquisition and operating expenses, net of deferrals | 13 | | 256 | | 269 |
| Amortization of deferred acquisition costs and intangibles | | | 94 | | 94 |
| Interest expense | | 69 | 12 | (4) | 77 |
| Total benefits and expenses | 13 | 69 | 2,197 | (4) | 2,275 |
| Loss from continuing operations before income taxes and equity in loss of subsidiaries | (15) | (69) | (41) | | (125) |
| Provision (benefit) for income taxes | (4) | 155 | 71 | | 222 |
| Equity in loss of subsidiaries | (369) | (207) | | 576 | |
| Loss from continuing operations | (380) | (431) | (112) | 576 | (347) |
| Income from discontinued operations, net of taxes | | 11 | 4 | | 15 |
| Net loss | (380) | (420) | (108) | 576 | (332) |
| Less: net income attributable to noncontrolling interests | | | 48 | | 48 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net loss available to Genworth Financial, Inc. s common stockholders | $ | (380) | $ (420) | $ | (156) | $ | 576 | $ | (380) |

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**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, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 1,145 | $ | $ 1,145 |
| Net investment income | (1) | | 788 | (4) | 783 |
| Net investment gains (losses) | | 21 | (72) | | (51) |
| Policy fees and other income | | (10) | 233 | | 223 |
| Total revenues | (1) | 11 | 2,094 | (4) | 2,100 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 1,290 | | 1,290 |
| Interest credited | | | 179 | | 179 |
| Acquisition and operating expenses, net of deferrals | 9 | 1 | 304 | | 314 |
| Amortization of deferred acquisition costs and intangibles | | | 563 | | 563 |
| Interest expense | | 77 | 32 | (4) | 105 |
| Total benefits and expenses | 9 | 78 | 2,368 | (4) | 2,451 |
| Loss from continuing operations before income taxes and equity in loss of subsidiaries | (10) | (67) | (274) | | (351) |
| Provision (benefit) for income taxes | (40) | 21 | (115) | | (134) |
| Equity in loss of subsidiaries | (314) | (270) | | 584 | |
| Loss from continuing operations | (284) | (358) | (159) | 584 | (217) |
| Loss from discontinued operations, net of taxes | | | (21) | | (21) |
| Net loss | (284) | (358) | (180) | 584 | (238) |
| Less: net income attributable to noncontrolling interests | | | 46 | | 46 |

| | | | | | |
|---|---|---|---|---|---|
| Net loss available to Genworth Financial, Inc.  s common stockholders | $ (284) | $ (358) | $ (226) | $ 584 | $ (284) |

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**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, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 3,029 | $ | $ 3,029 |
| Net investment income | (3) | 1 | 2,386 | (11) | 2,373 |
| Net investment gains (losses) | | (14) | 45 | | 31 |
| Policy fees and other income | | (6) | 745 | (1) | 738 |
| Total revenues | (3) | (19) | 6,205 | (12) | 6,171 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 3,715 | | 3,715 |
| Interest credited | | | 523 | | 523 |
| Acquisition and operating expenses, net of deferrals | 118 | 38 | 834 | | 990 |
| Amortization of deferred acquisition costs and intangibles | | | 305 | | 305 |
| Interest expense | 1 | 210 | 63 | (12) | 262 |
| Total benefits and expenses | 119 | 248 | 5,440 | (12) | 5,795 |
| Income (loss) from continuing operations before income taxes and equity in income (loss) of subsidiaries | (122) | (267) | 765 | | 376 |
| Provision (benefit) for income taxes | (31) | 88 | 298 | | 355 |
| Equity in income (loss) of subsidiaries | (62) | 78 | | (16) | |
| Income (loss) from continuing operations | (153) | (277) | 467 | (16) | 21 |
| Loss from discontinued operations, net of taxes | (2) | (7) | (16) | | (25) |
| Net income (loss) | (155) | (284) | 451 | (16) | (4) |
| Less: net income attributable to noncontrolling interests | | | 151 | | 151 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ | (155) | $ | (284) | $ | 300 | $ | (16) | $ | (155) |

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**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, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 3,422 | $ | $ 3,422 |
| Net investment income | (2) | 1 | 2,369 | (11) | 2,357 |
| Net investment gains (losses) | | 37 | (96) | | (59) |
| Policy fees and other income | | (30) | 703 | (1) | 672 |
| Total revenues | (2) | 8 | 6,398 | (12) | 6,392 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 3,714 | | 3,714 |
| Interest credited | | | 540 | | 540 |
| Acquisition and operating expenses, net of deferrals | 23 | 2 | 851 | | 876 |
| Amortization of deferred acquisition costs and intangibles | | | 759 | | 759 |
| Interest expense | | 231 | 96 | (12) | 315 |
| Total benefits and expenses | 23 | 233 | 5,960 | (12) | 6,204 |
| Income (loss) from continuing operations before income taxes and equity in income (loss) of subsidiaries | (25) | (225) | 438 | | 188 |
| Provision (benefit) for income taxes | (7) | (81) | 115 | | 27 |
| Equity in income (loss) of subsidiaries | (299) | (319) | | 618 | |
| Income (loss) from continuing operations | (317) | (463) | 323 | 618 | 161 |
| Loss from discontinued operations, net of taxes | (6) | | (328) | | (334) |
| Net loss | (323) | (463) | (5) | 618 | (173) |
| Less: net income attributable to noncontrolling interests | | | 150 | | 150 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net loss available to Genworth Financial, Inc. s common stockholders | $ | (323) | $ | (463) | $ | (155) | $ | 618 | $ | (323) |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating comprehensive income statement information for the three months ended September 30, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (380) | $ (420) | $ (108) | $ 576 | $ (332) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 66 | 63 | 73 | (130) | 72 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 5 | 4 | 4 | (8) | 5 |
| Derivatives qualifying as hedges | 54 | 54 | 57 | (111) | 54 |
| Foreign currency translation and other adjustments | (11) | (3) | | 13 | (1) |
| Total other comprehensive income (loss) | 114 | 118 | 134 | (236) | 130 |
| Total comprehensive income (loss) | (266) | (302) | 26 | 340 | (202) |
| Less: comprehensive income attributable to noncontrolling interests | | | 64 | | 64 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (266) | $ (302) | $ (38) | $ 340 | $ (266) |

The following table presents the condensed consolidating comprehensive income statement information for the three months ended September 30, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (284) | $ (358) | $ (180) | $ 584 | $ (238) |
| Other comprehensive income (loss), net of taxes: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 103 | 111 | 85 | (212) | 87 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | (1) | | 1 | |
| Derivatives qualifying as hedges | 217 | 217 | 231 | (448) | 217 |
| Foreign currency translation and other adjustments | (151) | (127) | (302) | 278 | (302) |
| Total other comprehensive income (loss) | 169 | 200 | 14 | (381) | 2 |
| Total comprehensive income (loss) | (115) | (158) | (166) | 203 | (236) |
| Less: comprehensive income attributable to noncontrolling interests | | | (121) | | (121) |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (115) | $ (158) | $ (45) | $ 203 | $ (115) |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $ (155) | $ (284) | $ 451 | $ (16) | $ (4) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,600 | 1,555 | 1,625 | (3,156) | 1,624 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 6 | 5 | 6 | (11) | 6 |
| Derivatives qualifying as hedges | 448 | 447 | 481 | (928) | 448 |
| Foreign currency translation and other adjustments | 138 | 65 | 224 | (204) | 223 |
| Total other comprehensive income (loss) | 2,192 | 2,072 | 2,336 | (4,299) | 2,301 |
| Total comprehensive income (loss) | 2,037 | 1,788 | 2,787 | (4,315) | 2,297 |
| Less: comprehensive income attributable to noncontrolling interests | | | 260 | | 260 |
| Total comprehensive income available to Genworth Financial, Inc. s common stockholders | $ 2,037 | $ 1,788 | $ 2,527 | $ (4,315) | $ 2,037 |

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (323) | $ (463) | $ (5) | $ 618 | $ (173) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | (708) | (696) | (729) | 1,405 | (728) |

| | | | | | |
|---|---|---|---|---|---|
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | (1) | | 1 | |
| Derivatives qualifying as hedges | 60 | 60 | 68 | (128) | 60 |
| Foreign currency translation and other adjustments | (344) | (276) | (619) | 620 | (619) |
| Total other comprehensive income (loss) | (992) | (913) | (1,280) | 1,898 | (1,287) |
| Total comprehensive income (loss) | (1,315) | (1,376) | (1,285) | 2,516 | (1,460) |
| Less: comprehensive income attributable to noncontrolling interests | | | (145) | | (145) |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (1,315) | $ (1,376) | $ (1,140) | $ 2,516 | $ (1,315) |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating cash flows statement information for the nine months ended September 30, 2016:

| **(Amounts in millions)** | **Parent Guarantor** | **Issuer** | **All Other Subsidiaries** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ (155) | $ (284) | $ 451 | $ (16) | $ (4) |
| Less loss from discontinued operations, net of taxes | 2 | 7 | 16 | | 25 |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | | | |
| Equity in (income) loss from subsidiaries | 62 | (78) | | 16 | |
| Dividends from subsidiaries | | 250 | (250) | | |
| (Gain) loss on sale of businesses | | 1 | (27) | | (26) |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | | 3 | (115) | | (112) |
| Net investment losses (gains) | | 14 | (45) | | (31) |
| Charges assessed to policyholders | | | (574) | | (574) |
| Acquisition costs deferred | | | (124) | | (124) |
| Amortization of deferred acquisition costs and intangibles | | | 305 | | 305 |
| Deferred income taxes | 8 | 304 | (139) | | 173 |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | | 5 | 754 | | 759 |
| Stock-based compensation expense | 18 | | 7 | | 25 |
| Change in certain assets and liabilities: | | | | | |
| Accrued investment income and other assets | (3) | (4) | (246) | (5) | (258) |
| Insurance reserves | | | 691 | | 691 |
| Current tax liabilities | 11 | (4) | 37 | | 44 |
| Other liabilities, policy and contract claims and other policy-related balances | (1) | (22) | 928 | | 905 |
| Net cash from operating activities | (58) | 192 | 1,669 | (5) | 1,798 |
| Cash flows from investing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Proceeds from maturities and repayments of investments: | | | | | |
| Fixed maturity securities | | 150 | 2,496 | | 2,646 |
| Commercial mortgage loans | | | 555 | | 555 |
| Restricted commercial mortgage loans related to securitization entities | | | 27 | | 27 |
| Proceeds from sales of investments: | | | | | |
| Fixed maturity and equity securities | | | 4,064 | | 4,064 |
| Purchases and originations of investments: | | | | | |
| Fixed maturity and equity securities | | | (8,758) | | (8,758) |
| Commercial mortgage loans | | | (405) | | (405) |
| Other invested assets, net | | | (143) | 5 | (138) |
| Policy loans, net | | | (80) | | (80) |
| Intercompany notes receivable | | (58) | (18) | 76 | |
| Proceeds from sale of businesses, net of cash transferred | | 1 | 38 | | 39 |
| Net cash from investing activities | | 93 | (2,224) | 81 | (2,050) |
| Cash flows from financing activities: | | | | | |
| Deposits to universal life and investment contracts | | | 1,028 | | 1,028 |
| Withdrawals from universal life and investment contracts | | | (1,463) | | (1,463) |
| Redemption of non-recourse funding obligations | | | (1,620) | | (1,620) |
| Repayment and repurchase of long-term debt | | (326) | (36) | | (362) |
| Repayment of borrowings related to securitization entities | | | (37) | | (37) |
| Return of capital to noncontrolling interests | | | (70) | | (70) |
| Dividends paid to noncontrolling interests | | | (126) | | (126) |
| Proceeds from intercompany notes payable | 58 | 18 | | (76) | |
| Other, net | | (36) | (13) | | (49) |
| Net cash from financing activities | 58 | (344) | (2,337) | (76) | (2,699) |
| Effect of exchange rate changes on cash and cash equivalents | | | 36 | | 36 |
| Net change in cash and cash equivalents | | (59) | (2,856) | | (2,915) |
| Cash and cash equivalents at beginning of period | | 1,124 | 4,869 | | 5,993 |
| Cash and cash equivalents at end of period | | 1,065 | 2,013 | | 3,078 |
| Less cash and cash equivalents held for sale at end of period | | | | | |
| Cash and cash equivalents of continuing operations at end of period | $ | $ 1,065 | $ 2,013 | $ | $ 3,078 |

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**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the condensed consolidating cash flows statement information for the nine months ended September 30, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net loss | $ (323) | $ (463) | $ (5) | $ 618 | $ (173) |
| Less loss from discontinued operations, net of taxes | 6 | | 328 | | 334 |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | | | |
| Equity in loss from subsidiaries | 299 | 319 | | (618) | |
| Dividends from subsidiaries | | 454 | (454) | | |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | | | (80) | | (80) |
| Net investment losses (gains) | | (37) | 96 | | 59 |
| Charges assessed to policyholders | | | (586) | | (586) |
| Acquisition costs deferred | | | (226) | | (226) |
| Amortization of deferred acquisition costs and intangibles | | | 759 | | 759 |
| Deferred income taxes | (2) | (102) | (13) | | (117) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | | 27 | (274) | | (247) |
| Stock-based compensation expense | 16 | | (2) | | 14 |
| Change in certain assets and liabilities: | | | | | |
| Accrued investment income and other assets | | 3 | (133) | (3) | (133) |
| Insurance reserves | | | 1,270 | | 1,270 |
| Current tax liabilities | (1) | 13 | (88) | 5 | (71) |
| Other liabilities, policy and contract claims and other policy-related balances | | (1) | 353 | | 352 |
| Cash from operating activities held for sale | | | 3 | | 3 |
| Net cash from operating activities | (5) | 213 | 948 | 2 | 1,158 |
| Cash flows from investing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Proceeds from maturities and repayments of investments: | | | | | |
| Fixed maturity securities | | 1 | 3,388 | | 3,389 |
| Commercial mortgage loans | | | 640 | | 640 |
| Restricted commercial mortgage loans related to securitization entities | | | 27 | | 27 |
| Proceeds from sales of investments: | | | | | |
| Fixed maturity and equity securities | | | 1,333 | | 1,333 |
| Purchases and originations of investments: | | | | | |
| Fixed maturity and equity securities | | | (6,836) | | (6,836) |
| Commercial mortgage loans | | | (678) | | (678) |
| Other invested assets, net | | (100) | 63 | (2) | (39) |
| Policy loans, net | | | 23 | | 23 |
| Intercompany notes receivable | 7 | (24) | (4) | 21 | |
| Capital contributions to subsidiaries | | (25) | 25 | | |
| Cash transferred for purchase of a subsidiary | | (202) | 202 | | |
| Cash from investing activities held for sale | | | (22) | | (22) |
| Net cash from investing activities | 7 | (350) | (1,839) | 19 | (2,163) |
| Cash flows from financing activities: | | | | | |
| Deposits to universal life and investment contracts | | | 1,693 | | 1,693 |
| Withdrawals from universal life and investment contracts | | | (1,677) | | (1,677) |
| Redemption of non-recourse funding obligations | | | (45) | | (45) |
| Proceeds from the issuance of long-term debt | | | 150 | | 150 |
| Repayment and repurchase of long-term debt | | (50) | (70) | | (120) |
| Repayment of borrowings related to securitization entities | | | (26) | | (26) |
| Proceeds from sale of subsidiary shares to noncontrolling interests | | | 226 | | 226 |
| Repurchase of subsidiary shares | | | (17) | | (17) |
| Dividends paid to noncontrolling interests | | | (145) | | (145) |
| Proceeds from intercompany notes payable | | (2) | 23 | (21) | |
| Other, net | (2) | (30) | 7 | | (25) |
| Cash from financing activities held for sale | | | (33) | | (33) |
| Net cash from financing activities | (2) | (82) | 86 | (21) | (19) |
| Effect of exchange rate changes on cash and cash equivalents | | | (86) | | (86) |
| Net change in cash and cash equivalents | | (219) | (891) | | (1,110) |
| Cash and cash equivalents at beginning of period | | 953 | 3,965 | | 4,918 |
| Cash and cash equivalents at end of period | | 734 | 3,074 | | 3,808 |
| Less cash and cash equivalents held for sale at end of period | | | 142 | | 142 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents of continuing operations at end of period | $ | | $ | 734 | $ | 2,932 | $ | | $ | 3,666 |

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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 estimated statutory results as of December 31, 2015, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $140 million to us in 2016 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $140 million is unrestricted, we do not expect our insurance subsidiaries to pay dividends to us in 2016 at this level if they need to retain capital for growth and to meet capital requirements and desired thresholds. As of September 30, 2016, Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $14.8 billion and $14.4 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 2015 Annual Report on Form 10-K. References herein to Genworth, the Company, we or our in 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. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors and risks, including, but not limited to, the following:

- *risks related to the proposed transaction with China Oceanwide Holdings Group Co., Ltd. ( China Oceanwide )* including: our inability to complete the transaction in a timely manner or at all; our inability to obtain stockholder or regulatory approvals, or the possibility that the parties may delay the transaction or that materially burdensome or adverse regulatory conditions may be imposed in connection with any such regulatory approvals; legal proceedings may be instituted against us in connection with the proposed transaction; the proposed transaction may disrupt our current plans and operations; certain restrictions during the pendency of the transaction may impact our ability to pursue certain business opportunities or strategic transactions; there may be insufficient continued availability of capital and financing to Genworth before the consummation of the transaction; there may be further rating agency actions and downgrades in our financial strength ratings; there may be changes in applicable laws or regulations; we may not recognize the anticipated benefits of the transaction; the amount of the costs, fees, expenses and other charges related to the transaction may be material; management s attention may be diverted 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 the restructuring of our U.S. life insurance businesses, debt obligations, cost savings, ratings and capital); 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 on anticipated terms; failure to obtain any required regulatory, stockholder and/or noteholder approvals or consents, 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; or adverse tax or accounting charges; and inability 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: risks related to the impact of our annual review of assumptions and methodologies related to our long-term care insurance claim reserves in the third quarter of 2016 and our margin reviews in the fourth quarter of 2016, including risks that additional information obtained in finalizing our margin review in the fourth quarter of 2016 or other changes to assumptions or methodologies materially affect the impact on margins or that we underestimate the magnitude of impact the updated claim reserves assumptions have on our margins; inadequate reserves and the need to increase reserves (including as a result of changes we made to our assumptions in the third quarter of 2016 in connection with our annual review of our long-term care insurance claim reserves and any changes we may make in the future to our assumptions, methodologies or otherwise in connection with periodic or other reviews); 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 made to our assumptions in the third quarter of 2016 in connection with our annual review of our long-term care insurance claim reserves and any changes we may make in the future to our assumptions, methodologies or otherwise in connection with periodic or other reviews); adverse impact on our financial results as a result of projected profits followed by projected losses (as is currently the case with our long-term care insurance business); and changes in valuation of fixed maturity, equity and trading 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; 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 meet or 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 (the Dodd-Frank Act ); and changes in accounting and reporting standards;

*liquidity, financial strength ratings, credit and counterparty risks* including: insufficient internal sources to meet liquidity needs and limited or no access to capital (including our inability to replace our credit facility); recent or future adverse rating agency actions, including with respect to rating downgrades or potential downgrades or being put on review for potential downgrade (including in connection with our recent announcement of a material increase to our long-term care insurance claim reserves), 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; availability, affordability and adequacy of reinsurance to protect us against losses; competition; competition in our mortgage insurance businesses from government and government-owned and government-sponsored enterprises ( GSEs ) offering mortgage insurance; material weakness in, or ineffective, internal control over financial reporting; 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 the impact on our margins of updated claim reserves assumptions in connection with our annual review of our long-term care insurance claim reserves in the third quarter of 2016 and our margin reviews in the fourth quarter of 2016; our inability to reflect future premium increases and other management actions in our margin calculation as anticipated, including in connection with our margin reviews in the fourth quarter of 2016; failure to sufficiently increase new sales for our long-term care insurance products; 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.

**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, funding agreements backing notes ( FABNs ) and guaranteed investment contracts ( GICs ).

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.

On May 9, 2016, Genworth Mortgage Insurance Corporation ( GMICO ), our wholly-owned indirect subsidiary, completed the sale of our European mortgage insurance business. As the held-for-sale criteria were satisfied during the fourth quarter of 2015, our European mortgage insurance business, included in Corporate and Other activities, has been reported as held for sale and its financial position is separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 14 in our consolidated financial statements under Item 1 Financial Statements for additional information.

**Strategic Update**

Our focus remains on improving business performance, reducing financial leverage and increasing financial and strategic flexibility across the organization. Our strategy includes maximizing our opportunities in our mortgage insurance businesses and restructuring our U.S. life insurance businesses.

*China Oceanwide Transaction*

On October 21, 2016, Genworth Financial, Asia Pacific Global Capital Co., Ltd. ( the Parent ), a limited liability company incorporated in the People s Republic of China, and Asia Pacific Global Capital USA Corporation ( Merger Sub ), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent, entered into a definitive agreement, pursuant to which Genworth Financial will be acquired by the Parent through a merger. Subject to the satisfaction or waiver of certain conditions, Merger Sub will merge with and into Genworth Financial. As a result of that merger, Merger Sub will cease to exist and Genworth Financial will survive as an indirect, wholly-owned subsidiary of Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide ). 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. The agreement concludes our previously announced strategic review process, which we have undertaken over the past two years.

As part of the transaction, China Oceanwide has additionally committed to contribute $600 million of cash to us to address our debt maturing in 2018, on or before its maturity, as well as $525 million of cash to our U.S. life insurance businesses. This contribution is in addition to $175 million of cash previously committed by Genworth Holdings to our U.S. life insurance businesses to pursue their restructuring as described below. These contributions, in addition to addressing the 2018 debt maturity, are intended to increase the likelihood of obtaining regulatory approvals for the China Oceanwide transaction as well as help achieve our strategic objectives of improving Genworth s overall financial strength and flexibility and supporting the restructuring of our U.S. life insurance businesses, as described further below.

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Upon the completion of the transaction, we will be a standalone subsidiary of China Oceanwide and our senior management team will continue to lead the business from our current headquarters in Richmond, Virginia. 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. The transaction is subject to approval by Genworth s stockholders as well as other closing conditions, including the receipt of required regulatory approvals.

*Restructuring of U.S. Life Insurance Businesses*

As previously announced, one of our strategic objectives has been to separate, then isolate, through a series of transactions, our long-term care insurance business from our other U.S. life insurance businesses. Our aim is to align substantially all of our in-force life insurance and annuity business under Genworth Life and Annuity Insurance Company ( GLAIC ), our Virginia domiciled life insurance company, and all long-term care insurance business under Genworth Life Insurance Company ( GLIC ), our Delaware domiciled life insurance company. In connection with these actions, we would separate GLAIC and GLIC ownership so that both subsidiaries are wholly-owned by an intermediate holding company. As part of this plan, Genworth Life Insurance Company of New York ( GLICNY ), our New York domiciled life insurance company, which is currently partially owned by GLAIC, would become a wholly-owned subsidiary of GLIC. To further isolate our long-term care insurance business from our other businesses, GLIC and GLICNY may ultimately be direct subsidiaries of Genworth Financial and no longer subsidiaries of Genworth Holdings. We have agreed to pursue a similar plan to separate and then isolate our long-term care insurance business from our other U.S. life insurance businesses in connection with the China Oceanwide transaction, but such plan has some important differences from the previously announced plan as discussed below.

In connection with the proposed China Oceanwide transaction, based on China Oceanwide s $525 million capital commitment, together with the $175 million of cash previously committed by Genworth Holdings, Genworth Holdings will pursue the purchase of GLAIC from GLIC at fair market value and we will pursue a variety of reinsurance transactions. Doing so would achieve our strategic objective of separating and isolating our long-term care insurance business, and regulatory approval to do so is a condition to the closing of the China Oceanwide transaction. China Oceanwide has no future obligation and has expressed no intention to contribute additional capital to support our legacy long-term care insurance business.

Separating and isolating our long-term care insurance business has been an important strategic objective, because we believe it would:

- help to isolate the downside risk from our long-term care insurance business that is putting downward pressure on the ratings of Genworth Holdings and our other subsidiaries,
- allow any future dividends from GLAIC to be paid directly to the holding company, which increases Genworth Holdings liquidity and ability to repay and/or refinance its indebtedness, and
- give a clearer picture of the necessity for the long-term care insurance rate actions that we are working towards today.

In the absence of the China Oceanwide transaction, we previously disclosed that after discussions with regulators, we believed as a first step, we might only be able to distribute a portion of GLAIC to the holding company, which we expected to complete by the end of the first half of 2017. In light of the third quarter of 2016 claim reserve charges relating to our long-term insurance business, absent the China Oceanwide transaction and any alternative commitment of external capital, we believe there would be considerable pressure on the feasibility and timing of achieving a partial unstacking of GLAIC in the foreseeable future, if at all.

*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 insurance business and the charges we recorded in the third quarter of 2016, our challenges include pressure on the feasibility and timing of our unstacking plan, as indicated above, which we believe is essential to increasing the liquidity of the holding company and isolating long-term care insurance risks from the rest of our businesses; increased pressure on and potential downgrades of our financial strength ratings, particularly for our mortgage insurance businesses, which could affect our ability to maintain our market share of the U.S. mortgage insurance industry; and other limitations on our holding company liquidity and ability to service and/or refinance our holding company debt. In the absence of an alternative third-party transaction, which we can neither predict nor guarantee, we believe we would be required to pursue asset sales to address these challenges, including potential sales of our mortgage insurance businesses in Canada and Australia and/or a partial sale of our U.S. mortgage insurance business.

*BLAIC Repatriation*

In February 2016, as part of restructuring our U.S. life insurance businesses, we also announced an initiative to repatriate existing reinsured business from Brookfield Life and Annuity Insurance Company Limited ( BLAIC ), our primary Bermuda domiciled captive reinsurance subsidiary, to our U.S. life insurance subsidiaries in 2016. Effective April 1, 2016, we recaptured a block of universal life insurance from BLAIC to GLAIC. In addition, effective July 1, 2016, we recaptured a block of term life insurance from BLAIC to GLAIC and terminated a term life insurance excess of loss treaty with BLAIC. The repatriation was completed through the merger of BLAIC into GLIC in October 2016. As part of the repatriation, all parental support provided to BLAIC, including the capital maintenance agreement that previously existed between Genworth Financial International Holdings, LLC and BLAIC, was terminated. There will be no impact on our consolidated results of operations and financial condition prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) as the financial impact of these reinsurance transactions had been eliminated in consolidation. However, there is expected to be an adverse impact on GLIC s risk-based capital ratio of between five and ten points in the fourth quarter of 2016.

*Ongoing Priorities*

Stabilizing our long-term care insurance business continues to be our long-term goal. We will continue to execute against this objective primarily through our multi-year long-term care insurance rate action plan. Increasing premiums and/or benefit modifications on our legacy long-term care insurance policies are critical to our ability to increase the capital levels needed to support 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.

For a discussion of the risks associated with the China Oceanwide transaction and our strategic alternatives, see Item 1A Risk Factors The proposed transaction with China Oceanwide may not be completed or may not be completed in the timeframe, terms or manner currently anticipated, which could have a material adverse effect on us and our stock price.

**Executive Summary of Financial Results**

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

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

During the three months ended September 30, 2016 and 2015, we had a net loss available to Genworth Financial, Inc.  s common stockholders of $380 million and $284 million, respectively.

In our long-term care insurance business, our financial results were lower largely from an increase of $283 million in claim reserves, net of reinsurance, as a result of our annual claims assumption review in the current year. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). This decrease was partially offset by higher premiums and reduced benefits of $35 million in the current year from in-force rate actions approved and implemented.

During the third quarter of 2016, we recorded a valuation allowance of $265 million on deferred tax assets in Corporate and Other activities. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

We recorded a DAC impairment of $296 million in our life insurance business during the three months ended September 30, 2015 that did not recur.

During the three months ended September 30, 2016, we recorded a gain of $15 million related to the sale of our lifestyle protection insurance business compared to a loss of $21 million during the three months ended September 30, 2015. See note 14 in our consolidated financial statements under Item 1 Financial Statements for additional information related to the sale of businesses.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

During the nine months ended September 30, 2016 and 2015, we had a net loss available to Genworth Financial, Inc. s common stockholders of $155 million and $323 million, respectively.

During the nine months ended September 30, 2015, we recorded a loss of $334 million related to the sale of our lifestyle protection insurance business. During the nine months ended September 30, 2016, we recorded an additional loss of $25 million related to the sale of our lifestyle protection insurance business and a gain of $18 million related to the sale of our mortgage insurance business in Europe. See note 14 in our consolidated financial statements under Item 1 Financial Statements for additional information related to the sale of businesses.

We recorded a DAC impairment of $296 million in our life insurance business during the nine months ended September 30, 2015 that did not recur.

In our long-term care insurance business, our financial results were lower largely from an increase of $283 million in claim reserves, net of reinsurance, as a result of our annual claims assumption review in the current year. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The current year also included $44 million of unfavorable adjustments which included refinements to the calculations of reserves. These decreases were partially offset by higher premiums and reduced benefits of $141 million in the current year from in-force rate actions approved and implemented.

During the third quarter of 2016, we recorded a valuation allowance of $265 million on deferred tax assets in Corporate and Other activities. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

During the nine months ended September 30, 2016, we recorded a $45 million expense related to the settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $6 million of legal fees and expenses related to this litigation.

**Significant Developments**

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

***Low interest rate environment***

Interest rates in the United States continue to remain lower than historical levels but rose modestly in the third quarter of 2016 after declining in the second quarter of 2016. Low interest rates are relatively neutral for our U.S. mortgage insurance business. While low interest rates have contributed to a stronger housing market and an increase in first-time homebuyers, low interest rates have increased the rate at which borrowers refinance their existing mortgages and have contributed to home price appreciation, both of which can result in the cancellation of mortgage insurance coverage.

In our long-term care insurance, life insurance and annuity products, low interest rates reduce the returns we earn on the investments that support our obligations under these products, which increases reinvestment risk and reduces our ability to achieve our targeted investment returns. Given the average life of our assets is shorter than the average life of the liabilities, our reinvestment risk is greater for these products as a significant portion of cash flows used to pay benefits to our policyholders and contractholders comes from investment returns. Because we may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and because many contracts have guaranteed minimum interest crediting rates, declines in earned investment returns can impact the profitability of these products. A low interest rate environment can also negatively impact the sufficiency of our margins on DAC and PVFP. For example, as a result of low interest rates, the margin on our fixed immediate annuities was negative in the second quarter of 2016 and resulted in a DAC write off and the establishment of additional reserves. See Critical Accounting Estimates for additional information. In addition, prolonged periods of low interest rates have increased our statutory reserves and the required capital in our U.S. life insurance subsidiaries. As a result, historically low interest rates over the last few years have adversely impacted our business, particularly in our long-term care insurance, life insurance and annuity products, and may materially adversely impact the profitability of these products in the future.

Our investment portfolio has overall been negatively impacted by the low interest rate environment. We have had to reinvest the cash we receive as interest or return of principal on our investments that matured or were called in lower-yielding high-grade instruments or in lower-credit instruments. For example, during the three months ended September 30, 2016, we reinvested $3.1 billion at an average rate of 2.6% as compared to our annualized weighted-average investment yield of 4.6%. Our derivatives portfolio contains forward starting interest rate swaps to hedge against changes in interest rates associated with future bond purchases in our long-term care insurance business, which increase in value at lower interest rates. However, a majority of these future bond purchases are not hedged.

See Item 3 Quantitative and Qualitative Disclosures About Market Risk for additional information about interest rate risk. In addition, for a further 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 2015 Annual Report on Form 10-K.

***Dispositions***

*Completed sale of our mortgage insurance business in Europe.* On May 9, 2016, GMICO completed the sale of our European mortgage insurance business to AmTrust Financial Services, Inc. and received $55 million with net proceeds of approximately $50 million.

*Completed sale of a life insurance block.* In January 2016, GLAIC, our indirect wholly-owned subsidiary, entered into a reinsurance agreement to coinsure certain term life insurance business with

Protective Life Insurance Company ( Protective Life ) as part of a life block transaction. This transaction generated capital in excess of $150 million in aggregate to Genworth, including tax benefits of approximately $175 million to the holding company that were settled in July 2016, which are committed to be used in executing the restructuring plan for our U.S. life insurance businesses.

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

*Completion of annual long-term care insurance claims assumption review.* In the third quarter of 2016, we completed our annual claims assumption review in our long-term care insurance business. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information).

*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 on the older generation blocks of business that were written before 2002. We are also requesting premium rate increases on newer blocks of business, as needed. For all of these rate action filings, we received 76 filing approvals from 20 states during the nine months ended September 30, 2016, representing a weighted-average increase of 29% on approximately $584 million in annualized in-force premiums. We also submitted 71 new filings in 31 states during the nine months ended September 30, 2016 on approximately $610 million in annualized in-force premiums. We will update our rate action filing plan to reflect our updated experience reflected in our long-term care insurance claims assumption review completed in the third quarter of 2016.

***Liquidity and Capital Resources***

*Redemption of Genworth Holdings 2016 notes.* In January 2016, Genworth Holdings redeemed $298 million of its 8.625% senior notes due 2016 issued in December 2009 (the 2016 Notes ) and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest using cash proceeds received from the sale of our lifestyle protection insurance business.

*Repurchase of Genworth Holdings senior notes.* During the three months ended March 31, 2016, we repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

*Completion of Genworth Holdings bond consent solicitation.* Genworth Holdings paid total fees related to the bond consent solicitation of approximately $61 million, including bond consent fees of $43 million, which were deferred, as well as broker, advisor and investment banking fees of $18 million, which were expensed, in the first quarter of 2016.

*Redemption of non-recourse funding obligations.* During the three months ended March 31, 2016, in connection with a life block transaction, River Lake Insurance Company ( River Lake ), our indirect wholly-owned subsidiary, redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake Insurance Company II ( River Lake II ), our indirect wholly-owned subsidiary, redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs.

**Financial Strength Ratings**

Ratings with respect to the financial strength of operating subsidiaries are an important factor in establishing the competitive position of insurance companies. Ratings are important to maintaining public confidence in us and our ability to market our products. Rating organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders.

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As of November 7, 2016, our principal mortgage insurance subsidiaries were rated in terms of financial strength by Standard & Poor s Financial Services, LLC ( S&P ), Moody s Investor Service, Inc. ( Moody s ) and Dominion Bond Rating Service ( DBRS ) as follows:

| Company | S&P rating | Moody s rating | DBRS rating |
|---|---|---|---|
| Genworth Mortgage Insurance Corporation | BB+ (Marginal) | Ba1 (Questionable) | Not rated |
| Genworth Financial Mortgage Insurance Company Canada | A+ (Strong) | Not rated | AA (Superior) |
| Genworth Financial Mortgage Insurance Pty. Limited (Australia) (1) | A+ (Strong) | A3 (Good) | Not rated |

(1) Also rated A+ by Fitch Ratings ( Fitch ).

As of November 7, 2016, our principal life insurance subsidiaries were rated in terms of financial strength by S&P, Moody s and A.M. Best Company, Inc. ( A.M. Best ) as follows:

| Company | S&P rating | Moody s rating | A.M. Best rating |
|---|---|---|---|
| Genworth Life Insurance Company | BB-(Marginal) | Ba2 (Questionable) | B (Fair) |
| Genworth Life and Annuity Insurance Company | BB-(Marginal) | Baa2 (Adequate) | B++ (Good) |
| Genworth Life Insurance Company of New York | BB-(Marginal) | Ba2 (Questionable) | B (Fair) |

The S&P, Moody s, DBRS and A.M. Best financial strength ratings of our operating companies are not designed to be, and do not serve as, measures of protection or valuation offered to investors. These financial strength ratings should not be relied on with respect to making an investment in our securities.

S&P states that insurers rated A (Strong) or BB (Marginal) have strong or marginal financial security characteristics, respectively. The A and BB ranges are the third- and fifth-highest of nine financial strength rating ranges assigned by S&P, which range from AAA to R. A plus (+) or minus (-) shows relative standing within a major rating category. These suffixes are not added to ratings in the AAA category or to ratings below the CCC category. Accordingly, the A+, BB+ and BB- ratings are the fifth-, eleventh- and thirteenth-highest of S&P s 21 ratings categories.

Moody s states that insurance companies rated A (Good) offer good financial security, that insurance companies rated Baa (Adequate) offer adequate financial security and that insurance companies rated Ba (Questionable) offer questionable financial security. The A (Good), Baa (Adequate) and Ba (Questionable) ranges are the third-, fourth- and fifth-highest, respectively, of nine financial strength rating ranges assigned by Moody s, which range from Aaa to C. Numeric modifiers are used to refer to the ranking within the group, with 1 being the highest and 3 being the lowest. These modifiers are not added to ratings in the Aaa category or to ratings below the Caa category. Accordingly, the A3, Baa2, Ba1 and Ba2 ratings are the seventh-, ninth-, eleventh- and twelfth-highest, respectively, of Moody s 21 ratings categories.

DBRS states that long-term obligations rated AA are of superior credit quality. The capacity for the payment of financial obligations is considered high and unlikely to be significantly vulnerable to future events. Credit quality differs from AAA only to a small degree.

A.M. Best states that the B++ (Good) rating is assigned to those companies that have, in its opinion, a good ability to meet their ongoing insurance obligations while B (Fair) is assigned to those companies that have, in its opinion, a fair ability to meet their ongoing insurance obligations. The B++ (Good) and B (Fair) ratings are the fifth- and seventh-highest of 15 ratings assigned by A.M. Best, which range from A++ to F.

We also solicit a rating from Fitch for our Australian mortgage insurance subsidiary. Fitch states that A (Strong) rated insurance companies are viewed as possessing strong capacity to meet policyholder and contract

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obligations. The A rating category is the third-highest of nine financial strength rating categories, which range from AAA to C. The symbol (+) or (-) may be appended to a rating to indicate the relative position of a credit within a rating category. These suffixes are not added to ratings in the AAA category or to ratings below the B category. Accordingly, the A+ rating is the fifth-highest of Fitch s 21 ratings categories.

We also solicit a rating from HR Ratings on a local scale for Genworth Seguros de Credito a la Vivienda S.A. de C.V., our Mexican mortgage insurance subsidiary. On November 1, 2016, HR Ratings downgraded the long-term rating of our Mexican mortgage insurance subsidiary to HR AA- from HR AA but maintained its short-term rating of HR1. For short-term ratings, HR Ratings states that HR1 rated companies are viewed as exhibiting high capacity for timely payment of debt obligations in the short-term and maintain low credit risk. The HR1 short-term rating category is the highest of six short-term rating categories, which range from HR1 to HR D. For long-term ratings, HR Ratings states that HR AA- rated companies are viewed as having high credit quality and offer high safety for timely payment of debt obligations and maintain low credit risk under adverse economic scenarios. The HR AA- long-term rating is the second-highest of HR Rating s eight long-term rating categories, which range from HR AAA to HR D.

Following our recent announcements regarding the China Oceanwide transaction and charges in our long-term care insurance business, rating agencies took a variety of adverse rating actions with respect to our principal life insurance subsidiaries. On October 25, 2016, A.M. Best downgraded the financial strength ratings of GLIC and GLICNY to B from B++ but affirmed GLAIC s financial strength rating at B++. A.M. Best has placed all of our ratings under review with negative implications. On October 24, 2016, S&P placed the ratings of Genworth Holdings, GMICO and GLAIC on CreditWatch with developing implications after downgrading GLAIC to BB- from BB on September 15, 2016. S&P also placed GLIC and GLICNY on CreditWatch with negative implications after downgrading these subsidiaries to BB- from BB on September 15, 2016. S&P made no changes to its ratings of our mortgage insurance businesses in Canada and Australia. On October 24, 2016, Moody s downgraded GLIC and GLICNY to Ba2 from Ba1 and ratings of these insurance subsidiaries remain on review for downgrade. At the same time, Moody s also announced its continued review of Genworth Holdings and GLAIC for downgrade. Moody s affirmed GMICO s rating with stable outlook. Moody s made no changes to its rating of our mortgage insurance business in Australia.

S&P, Moody s, DBRS, A.M. Best, Fitch and HR Ratings review their ratings periodically and we cannot assure you that we will maintain our current ratings in the future. Other agencies may also rate our company or our insurance subsidiaries on a solicited or an unsolicited basis. We do not provide information to agencies issuing unsolicited ratings and we cannot ensure that any agencies that rate our company or our insurance subsidiaries on an unsolicited basis will continue to do so.

For a discussion of the risks associated with ratings actions, see Item 1A Risk Factors Recent adverse rating agency actions have resulted in a loss of business and adversely affected our results of operations, financial condition and business and future adverse rating actions could have a further and more significant adverse impact on us in our 2015 Annual Report on Form 10-K.

**Critical Accounting Estimates**

As of September 30, 2016, other than as set forth below, there have been no material changes to critical accounting estimates set forth in our Annual Report on Form 10-K filed on February 26, 2016. The accounting estimates (including sensitivities) discussed in this section are those that we consider to be particularly critical to an understanding of our consolidated financial statements because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on our financial results. The sensitivities included in this section involve matters that are also inherently uncertain and involve the exercise of significant judgment in selecting the factors and amounts used in the sensitivities. Small changes in the amounts used in the sensitivities or the use of different factors could result in materially different outcomes from those reflected in the sensitivities. For all of these accounting estimates, we caution that future events seldom develop exactly as estimated and management s best estimates may require adjustment.

***Insurance liabilities and reserves***. We calculate and maintain reserves for the estimated future payment of claims to our policyholders and contractholders based on actuarial assumptions and in accordance with U.S. GAAP and industry practice. Many factors can affect these reserves, including, but not limited to: interest rates; investment returns and volatility; economic and social conditions, such as inflation, unemployment, home price appreciation or depreciation, and health care experience (including type of care and cost of care); policyholder persistency or lapses (i.e., the probability that a policy or contract will remain in-force from one period to the next); insured mortality (i.e., life expectancy or longevity); insured morbidity (i.e., frequency and severity of claim, including claim termination rates and benefit utilization rates); future premium increases; expenses; and doctrines of legal liability and damage awards in litigation. 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. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past had, material impacts on our reserve levels, results of operations and financial condition. For a discussion of the risks associated with our reserves and assumptions, see Item 1A Risk Factors We may be required to increase our reserves in our long-term care insurance, life insurance and/or annuity businesses in the fourth quarter of 2016 as a result of the changes we made to assumptions and methodologies in our long-term care insurance business in the third quarter of 2016, deviations from our estimates and actuarial assumptions or other reasons, which could have a material adverse effect on our results of operations and financial condition.

*Long-term care insurance products*

During the third quarter of 2016, we completed our annual review of our long-term care insurance claim reserve assumptions. Based on this review, which included an additional year of claims experience since our last annual review in the third quarter of 2015, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. The primary impact of assumption changes was from an overall lowering of claim termination rate assumptions for longer duration claims, particularly for reimbursement claims. We also updated our claim termination rate assumptions to reflect differences between product types, separating our indemnity and reimbursement blocks that were previously combined, and modestly refined our utilization rate assumptions and methodologies as well as refined our methodology primarily related to the calculation of incurred but not reported reserves to better reflect the aging of the in-force blocks. As a result of this review, we increased our long-term care insurance claim reserves by $460 million and increased reinsurance recoverables by $25 million in the third quarter of 2016.

In the fourth quarter of 2016, we will perform our U.S. GAAP loss recognition testing. We will incorporate the assumption and methodology changes made in the third quarter of 2016 into this test. We anticipate these changes will have a material negative impact on the margins of our long-term care insurance blocks. As a part of the process, we will consider how and to what extent incremental benefits from expected further premium rate actions or benefit reductions would help mitigate the impact of these changes. In connection with our annual testing, we will also review assumptions for incidence and interest rates, among other assumptions. The analysis and work will be completed in the fourth quarter of 2016. We will continue to regularly review our methodologies and assumptions in light of emerging experience and may be required to make further adjustments to our long-term care insurance claim reserves in the future, which could also impact our loss recognition testing results.

As previously disclosed, our acquired block of long-term care insurance had a premium deficiency in 2014. Due to the premium deficiency that existed in 2014, we monitor our acquired block frequently. The acquired block has a higher percentage of indemnity policies and therefore would be less likely to be adversely affected by the claim assumption changes made in the third quarter of 2016. Any adverse changes in our assumptions could result in the establishment of additional future policy benefit reserves. Our acquired block would not benefit significantly from additional rate actions as it is older, and therefore, there is a higher likelihood that adverse changes could result in additional losses on that block. For our acquired block of long-term care insurance, the impacts of adverse changes in assumptions would be immediately reflected in net income (loss) if our margin for this block is reduced below zero.

*Fixed immediate annuity products*

Historically low interest rate spreads have impacted the margins of our fixed immediate annuity products. In the second quarter of 2016, we performed our loss recognition testing and determined that we had a premium deficiency that resulted in negative margin of $32 million on our fixed immediate annuity products. The results of the test were primarily driven by the low interest rate environment in the second quarter of 2016. As a result, as of June 30, 2016, we wrote off the entire DAC balance for our fixed immediate annuity products of $14 million through amortization and increased our future policy benefit reserves by $18 million. In the third quarter of 2016, due to aging of the in-force block and the low interest environment, we determined that an additional premium deficiency existed in our fixed immediate annuity products that resulted in a further increase to our future policy benefit reserves of $6 million. These updated assumptions will remain locked-in until such time as we determine another premium deficiency exists. The impacts of future adverse changes in our assumptions could result in the establishment of additional future policy benefit reserves and would be immediately reflected in net income (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. Due to the premium deficiency that existed in the second and third quarters of 2016 and the current low interest rate environment, we will continue to monitor our fixed immediate annuity products frequently.

The risks we face include adverse variations in interest rates, credit spreads, persistency or lapse rates and/or mortality. Adverse experience in one or all of these risks will result in the establishment of additional benefit reserves and will be immediately reflected as a reduction to net income (loss) if our margin for this block is reduced to below zero. As of September 30, 2016, for our fixed immediate annuity products, we estimate that a combined 25 basis point reduction in interest rates or credit spreads from the September 30, 2016 levels, or 2% lower mortality, scenarios that we consider to be reasonably possible given historical changes in market conditions and experience on these products, would result in the establishment of additional benefit reserves and an after-tax charge to earnings of approximately $10 million or $15 million, respectively.

*Universal and term universal life insurance products*

Low interest rates can also negatively impact the financial results of our universal and term universal life insurance products. As of September 30, 2016 and December 31, 2015, we had DAC of $705 million and $898 million, respectively, and total policyholder account balances including reserves in excess of the contract value of $7,602 million and $7,490 million, respectively, related to these products. Adverse experience in long-term interest rates could result in the acceleration of DAC amortization as well as the establishment of additional benefit reserves. As of September 30, 2016, we estimate that if our assumption for reinvestment rates, as established in the fourth quarter of 2015, declined by 100 basis points and remained at that level, the result would be an after-tax charge to earnings of approximately $115 million from the acceleration of DAC amortization for our universal and term universal life insurance products. In determining interest rate assumptions for our universal and term universal life insurance products we also consider credit spreads, defaults, investment expenses, crediting rates and investment philosophy. To update interest rates assumption for DAC amortization, we would use the risk-free forward curve for new money assumptions as opposed to the fixed rate sensitivity above. Additionally, there are other assumptions, including expected mortality and persistency or lapse rates, which can influence DAC amortization and the establishment of additional benefit reserve estimates for our universal and term universal life insurance products. We plan to update all of these assumptions in the fourth quarter of 2016.

***Valuation of deferred tax assets.*** Deferred tax assets represent the tax benefit of future deductible temporary differences and operating loss and tax credit carryforwards. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized if there is no change in tax law. Under U.S. GAAP, we test the value of deferred tax assets for impairment on a quarterly basis at our taxpaying component level within each tax jurisdiction, consistent with our filed tax returns. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In determining the need for a valuation allowance, we consider carryback capacity, reversal of existing temporary differences, future taxable income and tax planning strategies. Tax planning strategies are actions that are prudent and feasible, that an entity ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on our historical experience and our expectations of future performance. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance, which is impacted by, but not limited to, policyholder behavior, competitor pricing, new product introductions, and specific industry and market conditions. Based on our analysis, we believe it is more likely than not that the results of future operations will generate sufficient taxable income to enable us to realize the deferred tax assets for which we have not established valuation allowances.

During the third quarter of 2016, we recorded a valuation allowance of $265 million on deferred tax assets. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

As of September 30, 2016, we had a net deferred tax liability of $1,151 million. We had a consolidated gross deferred tax asset of $941 million related to net operating loss carryforwards of $2,704 million as of September 30, 2016, which, if unused, will expire beginning in 2023. Foreign tax credit carryforwards amounted to $697 million as of September 30, 2016, which, if unused, will begin to expire in 2019. The amount of carryforward set to expire in 2019 is $11 million. As of September 30, 2016, we had a $588 million valuation allowance related to foreign tax credits, state deferred tax assets, foreign net operating losses and a specific federal separate tax return net operating loss deferred tax asset.

We are in a three-year cumulative pre-tax loss position in our U.S. jurisdiction as of September 30, 2016. A cumulative loss position is considered significant negative evidence in assessing the realizability of our deferred tax assets. Our ability to realize our net U.S. deferred tax liability of $1,151 million, which includes deferred tax assets of $1,638 million related to net operating loss and foreign tax credit carryforwards, is primarily dependent upon generating sufficient taxable income in future years. Management has concluded that there is sufficient positive evidence to overcome this negative evidence for the net operating losses and the majority of foreign tax credit carryforwards. This positive evidence includes the fact that: (i) our three-year cumulative pre-tax loss position includes significant charges that are not expected to recur in the future, including goodwill impairments, charges from our long-term care acquired block loss recognition testing in our U.S. Life Insurance segment in 2014, a loss on the sale of our lifestyle protection insurance business in 2015 and a loss recorded in 2015 related to the sale of our mortgage insurance business in Europe; and (ii) our profitable U.S. operating forecasts, exclusive of tax planning strategies, did not support full utilization of the net deferred tax assets related to foreign tax credit carryforwards within the U.S. federal carryforward periods based on our current projections.

***Deferred taxes on permanently reinvested foreign income.*** We are no longer able to positively assert that some undistributed income from our foreign operations will be reinvested indefinitely. Accordingly, we have recorded U.S. deferred taxes on the income from all foreign income for financial reporting purposes.

**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 several international financial markets have been impacted by concerns regarding global economies and the rate and strength of recovery, particularly given recent political and geographical events in Europe and the Middle East and slower growth in China. We continue to operate in a challenging economic environment characterized by slow global growth, fluctuating oil and commodity prices and very low interest rates. Interest rates remain at historically low levels despite a modest increase in third quarter of 2016 after sharp declines during the second quarter of 2016 due in part to the United Kingdom s vote to exit the European Union. 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 2015 Annual Report on Form 10-K.

Slow or varied levels of economic growth, coupled with uncertain financial markets and economic outlooks, changes in government policy, regulatory 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, anticipated tax policy changes 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 Federal Reserve, other central banks and other legislative and regulatory bodies have taken certain actions 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. 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 delayed economic recovery period, 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.

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***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, 2016 Compared to Three Months Ended September 30, 2015***

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

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 1,108 | $ 1,145 | $ (37) | (3)% |
| Net investment income | 805 | 783 | 22 | 3% |
| Net investment gains (losses) | 20 | (51) | 71 | 139% |
| Policy fees and other income | 217 | 223 | (6) | (3)% |
| Total revenues | 2,150 | 2,100 | 50 | 2% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 1,662 | 1,290 | 372 | 29% |
| Interest credited | 173 | 179 | (6) | (3)% |
| Acquisition and operating expenses, net of deferrals | 269 | 314 | (45) | (14)% |
| Amortization of deferred acquisition costs and intangibles | 94 | 563 | (469) | (83)% |
| Interest expense | 77 | 105 | (28) | (27)% |
| Total benefits and expenses | 2,275 | 2,451 | (176) | (7)% |
| Loss from continuing operations before income taxes | (125) | (351) | 226 | 64% |
| Provision (benefit) for income taxes | 222 | (134) | 356 | NM(1) |
| Loss from continuing operations | (347) | (217) | (130) | (60)% |
| Income (loss) from discontinued operations, net of taxes | 15 | (21) | 36 | 171% |
| Net loss | (332) | (238) | (94) | (39)% |
| Less: net income attributable to noncontrolling interests | 48 | 46 | 2 | 4% |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (380) | $ (284) | $ (96) | (34)% |

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

*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 $59 million. Our life insurance business decreased $47 million mainly attributable to higher ceded reinsurance and lower sales in the current year. Our long-term care insurance business decreased $8 million largely attributable to policy terminations and lower sales in the current year. This decrease was partially offset by $32 million of increased premiums in the current year from in-force rate actions approved and implemented. Our fixed annuities business decreased $4 million principally from lower sales of our life-contingent products in the current year.

Corporate and Other activities decreased $5 million largely related to the sale of our European mortgage insurance business in May 2016.

Our Australia Mortgage Insurance segment decreased $4 million mainly driven by lower flow volume and the seasoning of our smaller prior year in-force blocks of business in the current year. The decrease was also attributable to a favorable adjustment of $8 million relating to refinements to premium recognition factors in the prior year that did not recur. These decreases were partially offset by higher policy cancellations, lower ceded reinsurance and higher premiums in the current year as a result of the premium recognition factors that were refined in the prior year. The three months ended September 30, 2016 included an increase of $1 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment increased $23 million mainly attributable to higher average flow mortgage insurance in-force in the current year. The prior year included an accrual for premium refunds related to policy cancellations that was reversed in the first quarter of 2016.

Our Canada Mortgage Insurance segment increased $8 million principally from the seasoning of our larger, more recent in-force blocks of business in the current year. The three months ended September 30, 2016 included a decrease of $2 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 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.

*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. Life Insurance segment increased $401 million. Our long-term care insurance business increased $437 million principally from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in the current year. These increases were partially offset by reduced benefits of $24 million in the current year related to in-force rate actions approved and implemented. Our life insurance business decreased $32 million principally related to higher ceded reinsurance and favorable mortality in our term life insurance products, partially offset by unfavorable mortality in our universal life insurance products in the current year. Our fixed annuities business decreased $4 million attributable to lower interest credited, lower sales of our life-contingent products and less unfavorable mortality in the current year. These decreases were partially offset by an increase in reserves of $6 million related to loss recognition testing in our fixed immediate annuity products primarily driven by aging of the in-force and the low interest rate environment in the current year (see Critical Accounting Estimates for additional information).

Our Australia Mortgage Insurance segment increased $10 million largely attributable to higher new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in the current year. The prior year included an increase in reserves of $9 million that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported.

Our Canada Mortgage Insurance segment increased $6 million largely attributable to an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity as a result of economic pressure in oil-producing regions in the current year. The three months ended September 30, 2016 included a decrease of $1 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $27 million in the current year due to a continued decline in new delinquencies primarily in our 2005 through 2008 book years and a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies.

Our Runoff segment decreased $16 million primarily attributable to a decrease in guaranteed minimum death benefit ( GMDB ) reserves in our variable annuity products due to favorable equity market performance in the current year and unfavorable mortality in our corporate-owned life insurance products in the prior year.

*Interest credited.* Interest credited represents interest credited on behalf of policyholder and contractholder general account balances. Our U.S. Life Insurance segment decreased $8 million primarily related to our fixed annuities business predominantly from a decrease in crediting rates and lower average account values 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 $29 million mainly driven by lower legal accruals and expenses of $20 million and lower net expenses after allocations to our operating segments in the current year.

Our U.S. Life Insurance segment decreased $27 million. Our long-term care insurance business decreased $17 million principally from lower sales in the current year. Our life insurance business decreased $17 million primarily from lower sales in the current year. Our fixed annuities business increased $7 million largely attributable to a $12 million unfavorable correction related to state guaranty funds, partially offset by lower sales in the current year.

Our Australia Mortgage Insurance segment decreased $4 million primarily from an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021.

Our U.S. Mortgage Insurance segment increased $7 million primarily from higher production costs in the current year.

Our Canada Mortgage Insurance segment increased $5 million mainly driven by higher stock-based compensation expense from an increase in Genworth MI Canada Inc. s ( Genworth Canada ) share price in the current year compared to a decrease in Genworth Canada s share price in the prior year.

*Amortization of deferred acquisition costs and intangibles.* Amortization of deferred acquisition costs and intangibles consists primarily of the amortization of acquisition costs that are capitalized, PVFP and capitalized software.

Our U.S. Life Insurance segment decreased $461 million principally related to our life insurance business driven mostly by a $455 million impairment of DAC as a result of loss recognition testing of certain term life insurance policies in the prior year as part of a life block transaction that did not recur and from lower lapses in the current year.

Our Runoff segment decreased $10 million principally from favorable equity market performance related to our variable annuity products 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.

Our U.S. Life Insurance segment decreased $20 million principally as a result of the redemption of certain non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016 and from letter of credit fees in the prior year that did not recur.

Corporate and Other activities decreased $8 million largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

*Provision (benefit) for income taxes.* The effective tax rate decreased to (179.0)% for the three months ended September 30, 2016 from 38.1% for the three months ended September 30, 2015. The change from a tax benefit in the prior year to tax expense in the current year was largely attributable to a valuation allowance of $265 million recorded on deferred tax assets in the current year. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership. The three months ended September 30, 2016 included a decrease of $1 million attributable to changes in foreign exchange rates.

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

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***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| | Nine months ended September 30, | | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | | |
| Revenues: | | | | |
| Premiums | $ 3,029 | $ 3,422 | $ (393) | (11)% |
| Net investment income | 2,373 | 2,357 | 16 | 1% |
| Net investment gains (losses) | 31 | (59) | 90 | 153% |
| Policy fees and other income | 738 | 672 | 66 | 10% |
| Total revenues | 6,171 | 6,392 | (221) | (3)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 3,715 | 3,714 | 1 | % |
| Interest credited | 523 | 540 | (17) | (3)% |
| Acquisition and operating expenses, net of deferrals | 990 | 876 | 114 | 13% |
| Amortization of deferred acquisition costs and intangibles | 305 | 759 | (454) | (60)% |
| Interest expense | 262 | 315 | (53) | (17)% |
| Total benefits and expenses | 5,795 | 6,204 | (409) | (7)% |
| Income from continuing operations before income taxes | 376 | 188 | 188 | 100% |
| Provision for income taxes | 355 | 27 | 328 | NM [1] |
| Income from continuing operations | 21 | 161 | (140) | (87)% |
| Loss from discontinued operations, net of taxes | (25) | (334) | 309 | 93% |
| Net loss | (4) | (173) | 169 | 98% |
| Less: net income attributable to noncontrolling interests | 151 | 150 | 1 | 1% |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (155) | $ (323) | $ 168 | 52% |

[1] We define NM as not meaningful for increases or decreases greater than 200%.

*Premiums*

Our U.S. Life Insurance segment decreased $414 million. Our life insurance business decreased $460 million attributable to higher ceded reinsurance and lower sales in the current year. In the first quarter of

2016, we initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction. Our fixed annuities business decreased $14 million principally from lower sales of our life-contingent products in the current year. Our long-term care insurance business increased $60 million principally from $100 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations and lower sales in the current year.

Our Australia Mortgage Insurance segment decreased $16 million primarily driven by a $13 million decrease attributable to changes in foreign exchange rates during the nine months ended September 30, 2016. Premiums also decreased from lower flow volume and the seasoning of our smaller prior year in-force blocks of business in the current year, as well as the termination of a customer relationship with respect to new business effective in the second quarter of 2015. The decrease was also attributable to a favorable adjustment of $8 million relating to refinements to premium recognition factors in the prior year that did not recur. These decreases were partially offset by higher policy cancellations, lower ceded reinsurance and higher premiums in the current year as a result of the premium recognition factors that were refined in the prior year.

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Corporate and Other activities decreased $8 million largely related to the sale of our European mortgage insurance business in May 2016.

Our U.S. Mortgage Insurance segment increased $40 million mainly attributable to higher average flow mortgage insurance in-force, partially offset by higher ceded reinsurance premiums in the current year. The prior year included an accrual for premium refunds related to policy cancellations that was reversed in the first quarter of 2016.

Our Canada Mortgage Insurance segment increased $6 million primarily from the seasoning of our larger, more recent in-force blocks of business in the current year. The nine months ended September 30, 2016 included a decrease of $25 million attributable to changes in foreign exchange rates.

*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*

Corporate and Other activities increased $86 million. The current year included a gain of $64 million from the early extinguishment of debt related to the redemption of a securitization entity and a gain of $11 million attributable to the sale of assets to Pacific Life Insurance Company ( Pac Life ). Policy fees and other income in the prior year included losses from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

Our Australia Mortgage Insurance segment increased $4 million primarily due to non-functional currency transactions attributable to remeasurement and repayment of intercompany loans in the prior year that did not recur.

Our Runoff segment decreased $17 million mainly attributable to lower account values in our variable annuity products in the current year.

Our U.S. Life Insurance segment decreased $7 million primarily from our life insurance business largely related to lower sales and a decrease in our term universal and universal life insurance in-force blocks in the current year.

*Benefits and other changes in policy reserves*

Our U.S. Life Insurance segment increased $35 million. Our long-term care insurance business increased $473 million principally from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The increase was also attributable to aging and growth of the in-force block, higher severity on new claims and $68 million of unfavorable adjustments, which included refinements to the calculations of reserves in the current year. These increases were partially offset by reduced benefits of $125 million in the current year related to in-force rate actions approved and implemented. Our life insurance business decreased $404 million principally related to higher ceded reinsurance and favorable mortality in our term life insurance products in the current year. In the first quarter of 2016, we initially ceded $331 million of certain term life insurance reserves under a new reinsurance treaty as part of a life block transaction. These decreases were partially offset by higher reserves in our universal and term universal life insurance products reflecting our updated assumptions from the fourth quarter of 2015. Our fixed annuities business decreased $34 million largely attributable to $45 million of lower assumed reinsurance in connection with the recapture of certain life-contingent products by a third party in the current year. The decrease was also attributable to lower sales of our life-contingent products and lower interest credited in the current year. These decreases were partially offset by an increase in reserves of $24 million related to loss recognition testing in our fixed immediate annuity products driven primarily by the low interest rate environment (see Critical Accounting Estimates for additional information). The decrease was also partially offset by unfavorable mortality in the current year.

Our Australia Mortgage Insurance segment increased $23 million largely attributable to higher new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in the current year. In addition, the prior year included a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur. These increases were partially offset by an increase in reserves of $9 million in the prior year that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. The nine months ended September 30, 2016 included a decrease of $4 million attributable to changes in foreign exchange rates.

Our Canada Mortgage Insurance segment increased $11 million primarily attributable to an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity as a result of economic pressure in oil-producing regions in the current year. The nine months ended September 30, 2016 included a decrease of $6 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased $51 million in the current year due to a continued decline in new delinquencies primarily in our 2005 through 2008 book years and a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

Our Runoff segment decreased $10 million primarily attributable to decrease in GMDB reserves in our variable annuity products due to favorable equity market performance in the current year and unfavorable mortality in our corporate-owned life insurance products in the prior year.

Corporate and Other activities decreased $7 million largely related to the sale of our European mortgage insurance business in May 2016.

*Interest credited*

Our U.S. Life Insurance segment decreased $21 million. Our fixed annuities business decreased $14 million largely driven by a decrease in average account values and lower crediting rates in the current year. Our life insurance business decreased $7 million predominantly from lower crediting rates in our universal life insurance products in the current year.

Our Runoff segment increased $4 million largely related to higher cash values in our corporate-owned life insurance products in the current year.

*Acquisition and operating expenses, net of deferrals*

Corporate and Other activities increased $97 million mainly driven by $69 million for the settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $10 million of legal fees and expenses related to this litigation in the current year. In addition, we paid a make-whole expense of $20 million on the early redemption of Genworth Holdings 2016 senior notes in January 2016 and paid broker, advisor and investment banking fees of $18 million associated with Genworth Holdings bond consent solicitation in March 2016. The increase in the current year was also attributable to an additional loss of $9 million recorded related to the sale of our mortgage insurance business in Europe. These increases were partially offset by lower net expenses after allocations to our operating segments in the current year.

Our U.S. Mortgage Insurance segment increased $12 million primarily from higher production costs in the current year. This increase was partially offset by a write-off of software in the prior year that did not recur.

Our Canada Mortgage Insurance segment increased $8 million mainly driven by higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year compared to a decrease in Genworth Canada s share price in the prior year. The nine months ended September 30, 2016 included a decrease of $3 million attributable to changes in foreign exchange rates.

Our U.S. Life Insurance segment increased $7 million. Our fixed annuities business increased $59 million largely attributable to a $55 million ceding commission paid in connection with the recapture of certain life-contingent products by a third party, an unfavorable correction of $12 million related to state guaranty funds and a $3 million restructuring charge, partially offset by lower sales in the current year. Our life insurance business decreased $30 million primarily related to lower sales, partially offset by $7 million in restructuring charges in the current year. Our long-term care insurance business decreased $22 million predominantly from lower sales and marketing costs, partially offset by $6 million in restructuring charges and a $3 million write-off of a receivable associated with a disputed reinsurance claim in the current year.

Our Australia Mortgage Insurance segment decreased $7 million primarily from a decrease of $3 million attributable to changes in foreign exchange rates in the current year and an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021.

*Amortization of deferred acquisition costs and intangibles*

Our U.S. Life Insurance segment decreased $447 million. Our life insurance business decreased $463 million principally related to an impairment of DAC of $455 million as a result of loss recognition testing of certain term life insurance policies in the prior year as part of a life block transaction that did not recur and from lower lapses in the current year. Our fixed annuities business increased $13 million predominantly related to the write-off of DAC in connection with loss recognition testing in our fixed immediate annuity products of $14 million driven primarily by the low interest rate environment in the current year (see Critical Accounting Estimates for additional information).

Our Runoff segment decreased $7 million related to our variable annuity products principally from favorable equity market performance and lower account values, partially offset by lower net investment losses in the current year.

*Interest expense*

Our U.S. Life Insurance segment decreased $34 million driven by our life insurance business principally as a result of the redemption of certain non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016 and lower letter of credit fees. These decreases were partially offset by the write-off of $9 million of deferred borrowing costs associated with our non-recourse funding obligations as part of a life block transaction and the impact of credit rating downgrades which increased the cost of financing term life insurance reserves in the current year.

Corporate and Other activities decreased $19 million largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

*Provision for income taxes.* The effective tax rate increased to 94.5% for the nine months ended September 30, 2016 from 14.3% for the nine months ended September 30, 2015. The increase in the effective tax rate was largely attributable to a valuation allowance of $265 million recorded on deferred tax assets in the current year. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership. The increase in the effective tax rates was also related to true ups on international income in the prior year, decreased tax benefits from lower taxed foreign income in the current year compared to the prior year and decreased tax benefits from tax favored investments in the current year compared to the prior year. These increases were partially offset by a tax benefit in the current year attributable to the reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe and true ups on state income taxes in the prior year. The nine months ended September 30, 2016 included a decrease of $9 million attributable to changes in foreign exchange rates.

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

We use non-GAAP financial measures entitled net operating income (loss) available to Genworth Financial, Inc. s common stockholders and net operating income (loss) available to Genworth Financial, Inc. s common stockholders per common share. Net operating income (loss) available to Genworth Financial, Inc. s common stockholders per common share is derived from net operating income (loss) available to Genworth Financial, Inc. s common stockholders. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss) available to Genworth Financial, Inc. s common stockholders. We define net operating income (loss) available to Genworth Financial, Inc. s common stockholders as income (loss) from continuing operations excluding the after-tax effects of income 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 net 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 net 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 net operating income (loss) available to Genworth Financial, Inc. s common stockholders, and measures that are derived from or incorporate net operating income (loss) available to Genworth Financial, Inc. s common stockholders, including net 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 net 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 net 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. Net operating income (loss) available to Genworth Financial, Inc. s common stockholders and net operating income

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(loss) available to Genworth Financial, Inc. s common stockholders per common 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 common share on a basic and diluted basis determined in accordance with U.S. GAAP. In addition, our definition of net operating income (loss) available to Genworth Financial, Inc. s common stockholders may differ from the definitions used by other companies.

Adjustments to reconcile net loss attributable to Genworth Financial, Inc. s common stockholders and net operating income (loss) available to Genworth Financial, Inc. s common stockholders assume a 35% tax rate (unless otherwise indicated) and are net of the portion attributable to noncontrolling interests. Net investment gains (losses) are also adjusted for DAC and other intangible amortization and certain benefit reserves.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2016** | **2015** |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (380) | $ (284) | $ (155) | $ (323) |
| Add: net income attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Net loss | (332) | (238) | (4) | (173) |
| Income (loss) from discontinued operations, net of taxes | 15 | (21) | (25) | (334) |
| Income (loss) from continuing operations | (347) | (217) | 21 | 161 |
| Less: income from continuing operations attributable to noncontrolling interests | 48 | 46 | 151 | 150 |
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders | (395) | (263) | (130) | 11 |
| Adjustments to income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment (gains) losses, net [1] | (18) | 33 | (38) | 29 |
| (Gains) losses on sale of businesses | | | (3) | |
| (Gains) losses on early extinguishment of debt, net [2] | | 2 | (48) | 2 |
| (Gains) losses from life block transactions | | 455 | 9 | 455 |
| Expenses related to restructuring | 2 | | 22 | 3 |
| Fees associated with bond consent solicitation | | | 18 | |
| Taxes on adjustments | 6 | (163) | (9) | (163) |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (405) | $ 64 | $ (179) | $ 337 |

(1)

For the three months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of zero and $(10) million, respectively, and adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $2 million and $(8) million, respectively. For the nine months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(15) million and $(24) million, respectively, and adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $8 million and $(6) million, respectively.

(2) For the three and nine months ended September 30, 2015, (gains) losses on the early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of $1 million.

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In June 2016, we completed the sale of our term life insurance new business platform and recorded a pre-tax gain of $12 million. In May 2016, we completed the sale of our mortgage insurance business in Europe and recorded an additional pre-tax loss of $2 million. In the first quarter of 2016, we recorded an estimated pre-tax loss of $7 million and a tax benefit of $27 million related to the planned sale of this business. We also incurred a tax charge of $7 million in the third quarter of 2015 from potential business portfolio changes related to this business. These transactions were excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders for the periods presented as they related to a gain (loss) on the sale of businesses.

In June 2016, we settled restricted borrowings of $70 million related to a securitization entity and recorded a $64 million pre-tax gain related to the early extinguishment of debt. In January 2016, we paid a pre-tax make-whole expense of $20 million related to the early redemption of Genworth Holdings 2016 Notes. We also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million in the first quarter of 2016. In the third quarter of 2015, we paid an early redemption payment of approximately $1 million, net of the portion attributable to noncontrolling interests, related to the early redemption of Genworth Financial Mortgage Insurance Pty Limited s notes that were scheduled to mature in 2021. In the third quarter of 2015, we also repurchased approximately $50 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax loss of $1 million. These transactions were excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders for the periods presented as they related to a gain (loss) on the early extinguishment of debt.

In the first quarter of 2016, we completed a life block transaction resulting in a pre-tax loss of $9 million in connection with the early extinguishment of non-recourse funding obligations. In the third quarter of 2015, we recorded a pre-tax DAC impairment of $455 million on certain term life insurance policies in connection with entering into an agreement to complete a life block transaction.

In the third, second and first quarters of 2016, we recorded a pre-tax expense of $2 million, $5 million and $15 million, respectively, related to restructuring costs as part of an expense reduction plan as we evaluate and appropriately size our organizational needs and expenses. In the second quarter of 2015, we also recorded a pre-tax expense of $3 million related to restructuring costs.

There were no infrequent or unusual items excluded from net operating income (loss) available to Genworth Financial, Inc. s common stockholders during the periods presented other than fees incurred during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of $18 million for broker, advisor and investment banking fees.

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***Earnings (loss) per share***

Basic and diluted earnings (loss) 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 September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |
| Diluted | $ (0.79) | $ (0.53) | $ (0.26) | $ 0.02 |
| Net loss available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |
| Diluted | $ (0.76) | $ (0.57) | $ (0.31) | $ (0.65) |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ (0.81) | $ 0.13 | $ (0.36) | $ 0.68 |
| Diluted | $ (0.81) | $ 0.13 | $ (0.36) | $ 0.68 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 498.3 | 497.4 | 498.3 | 497.3 |
| Diluted [(1)] | 498.3 | 497.4 | 498.3 | 499.0 |

(1) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three and nine months ended September 30, 2016 and the three months ended September 30, 2015, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 2.2 million, 1.3 million and 1.8 million, respectively, would have been antidilutive to the calculation. If we had not incurred a loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2016 and 2015 and the nine months ended September 30, 2016, dilutive potential weighted-average common shares outstanding would have been 500.5 million, 498.7 million and 500.1 million, respectively. Since we had net operating income available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2015, we used 498.7 million diluted weighted-average common shares outstanding in the

calculation of diluted net operating income available to Genworth Financial, Inc. s common stockholders per common share.

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 net operating income (loss) available to Genworth Financial, Inc. s common stockholders. See note 11 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for a reconciliation of net operating income (loss) available to Genworth Financial, Inc. s common stockholders of our segments and Corporate and Other activities to net loss available to Genworth Financial, Inc. s common stockholders.

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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. The effective tax rates disclosed herein are calculated using whole dollars. As a result, the percentages shown may differ from an effective tax rate calculated using rounded numbers.

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: (1) new insurance written for mortgage insurance; (2) annualized first-year premiums for long-term care and term life insurance products; (3) annualized first-year deposits plus 5% of excess deposits for universal and term universal life insurance products; (4) 10% of premium deposits for linked-benefits products; and (5) new and additional premiums/deposits for fixed annuities. Sales do not include renewal premiums on policies or contracts written during prior periods. We consider new insurance written, annualized first-year premiums/deposits, premium equivalents and new premiums/deposits 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 incurred losses and loss adjustment expenses 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.

An assumed tax rate of 35% is utilized in certain adjustments to net operating income (loss) available to Genworth Financial, Inc. s common stockholders and in the explanation of specific variances of operating performance.

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.

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**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, and mortgage origination volume mix and practices; the levels and aging of mortgage delinquencies, which may be affected by seasonal variations; the inventory of unsold homes; loan modification and other servicing efforts; and any future 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, the Federal Housing Administration ( FHA ), the Federal Housing Finance Agency ( FHFA ), the U.S. Congress or the U.S. government which impact housing or housing finance policy. In the 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.

Mortgage origination volume increased during the third quarter of 2016, primarily due to a strong purchase originations market and an increase in refinance originations. Purchase mortgages are typically insured with private mortgage insurance more often than refinance mortgages, which contributed to a larger private mortgage insurance market size in the third quarter of 2016 compared to the first and second quarters of 2016. Refinance originations increased from the second quarter of 2016 as mortgage interest rates declined further during the third quarter of 2016. As a result of the increase in refinance originations, we have seen sustained pressure on the persistency of our portfolio, which remained at 77%. Our U.S. mortgage insurance estimated market share declined modestly during the third quarter of 2016, primarily due to the reduction in the concentration of our single premium lender paid business as we continue to selectively participate in that market and to a lesser extent, competitor pricing, the negative ratings differential relative to our competitors and concerns expressed about Genworth s financial condition. The decline was partially offset by business gains from the addition of new customers as well as growth within our existing customer base driven, in part, we believe by competitive pricing and differentiated service levels.

New insurance written increased 38% in the third quarter of 2016 compared to the third quarter of 2015 due to a larger purchase originations market and refinance originations market and increased 12% compared to the second quarter of 2016 consistent with the seasonal increases in purchase originations and the increase in refinance originations driven by lower interest rates. 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 2016, we experienced an increase in the percentage of 97% loan-to-value new insurance written as the result of GSE changes in underwriting guidelines, which was partially offset by refinance originations and the reduction in the percentage of 95% loan-to-value new insurance written. The percentage of single premium new insurance written decreased in the third quarter of 2016 compared to the third quarter of 2015 and second quarter of 2016, 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 of these transactions. We have observed changes in competitor pricing protocols as well as continued competitive pricing with monthly premium borrower paid mortgage insurance during the third quarter of 2016. In March 2016, we introduced a new national monthly premium borrower paid rate card that was effective beginning April 4, 2016. This new rate card aligned our pricing with the factors promulgated by the GSEs in the revised industry-wide risk-based capital requirements under PMIERs, features reduced rates across all loan-to-value ratios for borrowers with credit scores above 740 and is broadly competitive with the industry, including the FHA. As a result, our new insurance written consisted of higher credit quality loans, which resulted in a lower weighted-average price and a similar reduction in PMIERs capital requirements during the second and third quarters of 2016.

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Our loss ratio was 21% for the three months ended September 30, 2016, reflecting a favorable reserve adjustment offset by seasonally higher new delinquencies. In the third quarter of 2016, we made a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies. This adjustment favorably impacted the loss ratio for the three months ended September 30, 2016 by six points. New delinquencies decreased during the third quarter of 2016 compared to the third quarter of 2015 due to improvements in unemployment rates and housing values and the declining volume of new delinquencies from our 2005 through 2008 book years. However, the majority of our new delinquencies in the third quarter of 2016 continued to come from our 2005 through 2008 book years, which were negatively impacted by economic and housing market trends. New delinquencies increased during the third quarter of 2016 compared to the second quarter of 2016 primarily from the seasonal historical trends we see in the second half of the year. Foreclosure starts and the number of paid claims decreased during the third quarter of 2016 as compared to the third quarter of 2015. Additionally, we have seen a reduction in loans that have been subject to a modification or workout in the third quarter of 2016 compared to the third quarter of 2015. 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.

As of September 30, 2016, 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 15.0:1, compared with a risk-to-capital ratio of approximately 15.1:1 as of June 30, 2016 and approximately 16.4:1 as of December 31, 2015. 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. We have met all PMIERs reporting requirements as required by the GSEs. As of September 30, 2016, we estimate our U.S. mortgage insurance business had available assets of approximately 117% of the required assets under PMIERs compared to approximately 115% as of June 30, 2016 and 109% as of December 31, 2015. As of September 30, 2016, June 30, 2016 and December 31, 2015, the PMIERs sufficiency ratios were in excess of $400 million, $350 million and $200 million, respectively, of available assets above the PMIERs requirements. The increase during 2016 was driven, in part, by a higher valuation and the impact of foreign exchange of our U.S. mortgage insurance business holdings in Genworth Canada, positive operating cash flows, execution of new reinsurance, proceeds from the sale of our European mortgage insurance business, tax proceeds and the reduction in delinquent loans. This increase was partially offset by growth in new insurance written. The value of our investment in Genworth Canada could be impacted going forward by the proposed regulatory changes discussed in more detail in Canada Mortgage Insurance segment Trends and conditions.

Effective July 1, 2016, our U.S. mortgage insurance business executed two excess of loss reinsurance transactions with a panel of reinsurers covering current and expected new insurance written for the 2016 and 2017 book years. The reinsurance transaction covering our 2016 book year and the three reinsurance transactions executed during 2015, covering our 2009 through 2015 book years, provided an aggregate of approximately $545 million of PMIERs capital credit as of September 30, 2016.

As of September 30, 2016, loans modified through the Home Affordable Refinance Program ( HARP ) accounted for approximately $15.6 billion of insurance in-force, with approximately $14.6 billion of those loans 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. The U.S. government has extended HARP through the year ending December 31, 2016. 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.

On April 14, 2016, FHFA announced the Principal Reduction Modification program for borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac and who meet specific eligibility criteria. FHFA expects that approximately 33,000 borrowers will be eligible for the program. Actual participation will be dependent upon a variety of factors, including the effectiveness of loan servicer solicitations and loan modification processes. We are not anticipating this program to have a material impact on our results of operations.

***Segment results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

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 September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 169 | $ 146 | $ 23 | 16% |
| Net investment income | 16 | 12 | 4 | 33% |
| Net investment gains (losses) | | 1 | (1) | (100)% |
| Policy fees and other income | 1 | 2 | (1) | (50)% |
| Total revenues | 186 | 161 | 25 | 16% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 36 | 63 | (27) | (43)% |
| Acquisition and operating expenses, net of deferrals | 45 | 38 | 7 | 18% |
| Amortization of deferred acquisition costs and intangibles | 3 | 3 | | % |
| Total benefits and expenses | 84 | 104 | (20) | (19)% |
| Income from continuing operations before income taxes | 102 | 57 | 45 | 79% |
| Provision for income taxes | 36 | 20 | 16 | 80% |
| Income from continuing operations | 66 | 37 | 29 | 78% |
| Adjustments to income from continuing operations: | | | | |
| Net investment (gains) losses | | (1) | 1 | 100% |
| Expenses related to restructuring | 1 | | 1 | NM[1] |
| Taxes on adjustments | | 1 | (1) | (100)% |

| | | | | |
|---|---|---|---|---|
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 67 | $ 37 | $ 30 | 81% |

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

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

Net operating income available to Genworth Financial, Inc. s common stockholders increased in the current year mainly attributable to lower losses and higher premiums.

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***Revenues***

Premiums increased mainly attributable to higher average flow mortgage insurance in-force in the current year. The prior year included an accrual for premium refunds related to policy cancellations that was reversed in the first quarter of 2016.

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

***Benefits and expenses***

Benefits and other changes in policy reserves decreased in the current year due to a continued decline in new delinquencies primarily in our 2005 through 2008 book years and a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies.

Acquisition and operating expenses, net of deferrals, increased primarily from higher production costs in the current year.

*Provision for income taxes.* The effective tax rate increased slightly to 35.8% for the three months ended September 30, 2016 from 35.4% for the three months ended September 30, 2015.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| (Amounts in millions) | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 489 | $ 449 | $ 40 | 9% |
| Net investment income | 46 | 44 | 2 | 5% |
| Net investment gains (losses) | (1) | 1 | (2) | (200)% |
| Policy fees and other income | 3 | 3 | | % |
| Total revenues | 537 | 497 | 40 | 8% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 112 | 163 | (51) | (31)% |
| Acquisition and operating expenses, net of deferrals | 125 | 113 | 12 | 11% |
| Amortization of deferred acquisition costs and intangibles | 8 | 7 | 1 | 14% |
| Total benefits and expenses | 245 | 283 | (38) | (13)% |

| | | | | |
|---|---|---|---|---|
| Income from continuing operations before income taxes | 292 | 214 | 78 | 36% |
| Provision for income taxes | 104 | 76 | 28 | 37% |
| Income from continuing operations | 188 | 138 | 50 | 36% |
| Adjustments to income from continuing operations: | | | | |
| Net investment (gains) losses | 1 | (1) | 2 | 200% |
| Expenses related to restructuring | 1 | | 1 | NM[1] |
| Taxes on adjustments | (1) | 1 | (2) | (200)% |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 189 | $ 138 | $ 51 | 37% |

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

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

Net operating income available to Genworth Financial, Inc. s common stockholders increased in the current year mainly attributable to lower losses and higher premiums.

***Revenues***

Premiums increased mainly attributable to higher average flow mortgage insurance in-force, partially offset by higher ceded reinsurance premiums in the current year. The prior year included an accrual for premium refunds related to policy cancellations that was reversed in the first quarter of 2016.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased in the current year due to a continued decline in new delinquencies primarily in our 2005 through 2008 book years and a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

Acquisition and operating expenses, net of deferrals, increased primarily from higher production costs in the current year. This increase was partially offset by a write-off of software in the prior year that did not recur.

*Provision for income taxes.* The effective tax rate increased slightly to 35.8% for the nine months ended September 30, 2016 from 35.6% for the nine months ended September 30, 2015.

***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:

| | As of September 30, | | Increase (decrease) and percentage change | |
|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2016 vs. 2015** | |
| Primary insurance in-force [1] | $ 133,700 | $ 120,400 | $ 13,300 | 11% |
| Risk in-force [2] | 32,500 | 29,000 | 3,500 | 12% |

(1) Primary insurance in-force represents 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.

(2) In the third quarter of 2016, all risk in-force metrics were based upon more current loan balances as provided by servicers, lenders and investors and conform to our presentation under PMIERs. Previously, certain risk in-force metrics were based on original loan balances when current loan balances were not available. The prior period has been re-presented to reflect these modified metrics.

| (Amounts in millions) | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|---|---|---|---|
| New insurance written | $ 12,800 | $ 9,300 | $ 3,500 | 38% | $ 31,600 | $ 23,800 | $ 7,800 | 33% |
| Net premiums written | 193 | 171 | 22 | 13% | 559 | 511 | 48 | 9% |

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

Primary insurance in-force increased primarily as a result of the increase of $14.1 billion in flow insurance in-force, which increased from $117.5 billion as of September 30, 2015 to $131.6 billion as of September 30, 2016 as a result of new insurance written during the current year. The increase in flow insurance in-force was partially offset by a decline of $0.8 billion in bulk insurance in-force, which decreased from $2.9 billion as of September 30, 2015 to $2.1 billion as of September 30, 2016 from cancellations and lapses. In addition, risk in-force increased primarily as a result of higher flow new insurance written. Flow persistency was 78% and 79% for the nine months ended September 30, 2016 and 2015, respectively.

*New insurance written*

For the three months ended September 30, 2016, new insurance written increased primarily as a result of a larger purchase originations market and higher refinance originations as a result of low interest rates. We also had lower concentration of single premium lender paid business, consistent with our decision to selectively participate in the market and an increase in our market share. For the nine months ended September 30, 2016, new insurance written increased due to higher market share and a larger purchase originations market.

*Net premiums written*

Net premiums written for the three and nine months ended September 30, 2016 increased primarily from higher average flow 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 September 30, | | Increase (decrease) 2016 vs. 2015 | Nine months ended September 30, | | Increase (decrease) 2016 vs. 2015 |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | | **2016** | **2015** | |
| Loss ratio | 21% | 43% | (22)% | 23% | 36% | (13)% |
| Expense ratio (net earned premiums) | 28% | 28% | % | 27% | 27% | % |
| Expense ratio (net premiums written) | 24% | 24% | % | 24% | 23% | 1% |

The loss ratio is the ratio of incurred losses and loss adjustment expenses 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, 2016 decreased from a continued decline in new delinquencies primarily in our 2005 through 2008 book years and higher net earned premiums in the current year. The decrease in the current year was also attributable to a favorable adjustment of $10 million to our loss reserves associated with lower expected claim rates on early stage delinquencies, partially offset by higher claim severity on late stage delinquencies. This adjustment favorably impacted the loss ratio for the three and nine months ended

September 30, 2016 by six and two points, respectively. For the nine months ended September 30, 2016, the decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

The expense ratio (net premiums written) for the nine months ended September 30, 2016 increased slightly from higher production costs, mostly offset by higher net premiums written in the current year.

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*Delinquent loans*

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:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Primary insurance: | | | |
| Insured loans in-force | 686,789 | 651,668 | 647,126 |
| Delinquent loans | 25,803 | 31,663 | 32,989 |
| Percentage of delinquent loans (delinquency rate) | 3.76% | 4.86% | 5.10% |
| Flow loan in-force | 665,821 | 627,349 | 620,430 |
| Flow delinquent loans | 24,720 | 30,416 | 31,678 |
| Percentage of flow delinquent loans (delinquency rate) | 3.71% | 4.85% | 5.11% |
| Bulk loans in-force | 20,968 | 24,319 | 26,696 |
| Bulk delinquent loans [(1)] | 1,083 | 1,247 | 1,311 |
| Percentage of bulk delinquent loans (delinquency rate) | 5.17% | 5.13% | 4.91% |
| A minus and sub-prime loans in-force | 24,281 | 28,332 | 29,745 |
| A minus and sub-prime loans delinquent loans | 5,306 | 6,448 | 6,642 |
| Percentage of A minus and sub-prime delinquent loans (delinquency rate) | 21.85% | 22.76% | 22.33% |
| Pool insurance: | | | |
| Insured loans in-force | 5,896 | 6,620 | 7,284 |
| Delinquent loans | 343 | 386 | 426 |
| Percentage of delinquent loans (delinquency rate) | 5.82% | 5.83% | 5.85% |

(1) 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 778 as of September 30, 2016, 889 as of December 31, 2015 and 917 as of September 30, 2015.

Total delinquencies related to our 2005 through 2008 book years have declined as the United States has continued to experience improvement in its residential real estate market.

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, 2016 | | | |
|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Delinquencies** | **Direct case reserves** (1) | **Risk in-force** | **Reserves as % of risk in-force** |
| Payments in default: | | | | |
| 3 payments or less | 9,048 | $ 45 | $ 371 | 12% |

| | | | | |
|---|---|---|---|---|
| 4 11 payments | 6,053 | 144 | 252 | 57% |
| 12 payments or more | 9,619 | 410 | 466 | 88% |
| Total | 24,720 | $ 599 | $ 1,089 | 55% |

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

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| (Dollar amounts in millions) | December 31, 2015 Delinquencies | Direct case reserves (1) | Risk in-force | Reserves as % of risk in-force |
|---|---|---|---|---|
| Payments in default: | | | | |
| 3 payments or less | 10,103 | $ 52 | $ 405 | 13% |
| 4 11 payments | 7,366 | 180 | 307 | 59% |
| 12 payments or more | 12,947 | 543 | 638 | 85% |
| Total | 30,416 | $ 775 | $ 1,350 | 57% |

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

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 risk in-force as of September 30, 2016 | Percent of total reserves as of September 30, 2016 (1) | Delinquency rate September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|---|---|
| By Region: | | | | | |
| Southeast (2) | 19% | 22% | 4.44% | 5.78% | 6.09% |
| South Central (3) | 15 | 8 | 3.12% | 3.81% | 3.85% |
| Northeast (4) | 14 | 35 | 6.96% | 8.91% | 9.37% |
| Pacific (5) | 14 | 8 | 2.08% | 3.01% | 3.25% |
| North Central (6) | 12 | 8 | 2.97% | 3.89% | 4.13% |
| Great Lakes (7) | 10 | 6 | 2.78% | 3.50% | 3.71% |
| New England (8) | 6 | 6 | 3.70% | 4.71% | 5.06% |
| Mid-Atlantic (9) | 6 | 5 | 3.84% | 5.05% | 5.22% |
| Plains (10) | 4 | 2 | 3.09% | 3.70% | 3.68% |
| Total | 100% | 100% | 3.76% | 4.86% | 5.10% |

(1) Total reserves were $658 million as of September 30, 2016.

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

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

(4) New Jersey, New York and Pennsylvania.

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

(6) Illinois, Minnesota, Missouri and Wisconsin.

(7) Indiana, Kentucky, Michigan and Ohio.

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

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

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

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| | Percent of primary risk in-force as of September 30, 2016 | Percent of total reserves as of September 30, 2016 [1] | Delinquency rate September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|---|---|
| By State: | | | | | |
| California | 8% | 3% | 1.59% | 2.26% | 2.29% |
| Texas | 7% | 3% | 3.33% | 3.90% | 3.83% |
| Florida | 6% | 12% | 5.33% | 7.71% | 8.52% |
| New York | 6% | 17% | 7.12% | 9.07% | 9.46% |
| Illinois | 6% | 5% | 3.42% | 4.70% | 5.00% |
| Pennsylvania | 4% | 5% | 4.83% | 6.20% | 6.40% |
| Michigan | 4% | 1% | 1.91% | 2.56% | 2.78% |
| Ohio | 4% | 3% | 3.38% | 4.14% | 4.39% |
| Washington | 4% | 2% | 1.86% | 2.92% | 3.15% |
| New Jersey | 4% | 13% | 10.11% | 12.71% | 13.57% |

(1) Total reserves were $658 million as of September 30, 2016.

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, 2016:

| (Amounts in millions) | Average rate | Percent of total reserves [1] | Primary insurance in-force | Percent of total | Primary risk in-force | Percent of total |
|---|---|---|---|---|---|---|
| **Policy Year** | | | | | | |
| 2004 and prior | 6.02% | 11.6% | $ 3,205 | 2.4% | $ 627 | 1.9% |
| 2005 | 5.63% | 11.2 | 2,887 | 2.2 | 697 | 2.2 |
| 2006 | 5.79% | 17.0 | 4,992 | 3.7 | 1,177 | 3.6 |
| 2007 | 5.71% | 35.3 | 12,757 | 9.5 | 3,001 | 9.3 |
| 2008 | 5.26% | 16.5 | 10,891 | 8.2 | 2,555 | 7.9 |
| 2009 | 4.95% | 0.8 | 1,350 | 1.0 | 290 | 0.9 |
| 2010 | 4.68% | 0.7 | 1,755 | 1.3 | 401 | 1.2 |
| 2011 | 4.53% | 0.7 | 2,430 | 1.8 | 580 | 1.8 |
| 2012 | 3.84% | 0.8 | 6,432 | 4.8 | 1,567 | 4.8 |
| 2013 | 4.03% | 1.4 | 11,409 | 8.5 | 2,795 | 8.6 |
| 2014 | 4.41% | 2.3 | 16,562 | 12.4 | 4,063 | 12.6 |
| 2015 | 4.10% | 1.5 | 28,053 | 21.0 | 6,911 | 21.4 |
| 2016 | 3.91% | 0.2 | 31,007 | 23.2 | 7,693 | 23.8 |
| Total portfolio | 4.59% | 100.0% | $ 133,730 | 100.0% | $ 32,357 | 100.0% |

(1) Total reserves were $658 million as of September 30, 2016.

**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 2016, the U.S. dollar weakened against the Canadian dollar as compared to the third quarter of 2015, which positively impacted the results of our mortgage insurance business in Canada as reported in U.S. dollars. However, there was strengthening of the U.S. dollar against the Canadian dollar compared to the second quarter of 2016, which negatively impacted our results. Any future movement in foreign exchange rates could impact future results.

The Canadian gross domestic product is expected to have experienced moderate growth in the third quarter of 2016 reflecting improving exports and a return to full oil sands production and rebuilding efforts in Alberta following the Fort McMurray wildfires. Bank of Canada recently adjusted its full year 2016 gross domestic product forecast to 1.1%.

The overnight interest rate in Canada remained flat at 0.50% in the third quarter of 2016 and the low interest rate environment is expected to continue for the remainder of 2016. Canada s unemployment rate increased to 7.0% at the end of the third quarter of 2016 compared to 6.8% at the end of the second quarter of 2016 due in part to an increase in workforce participation. Home sales in Canada increased approximately 4% in the third quarter of 2016 compared to the third quarter of 2015, while home sales decreased approximately 4% compared to the second quarter of 2016. The national average home price increased modestly as of the end of the third quarter of 2016 compared to the third quarter of 2015 and the second quarter of 2016. We expect the Canadian housing market to continue to experience significant regional variations with weakness in the oil-producing regions more than offset by strong housing markets in British Columbia and Ontario.

Our mortgage insurance business in Canada experienced higher losses in the third quarter of 2016 compared to both the third quarter of 2015 and the second quarter of 2016 primarily due to economic pressure in oil-producing regions, resulting in an increase in new delinquencies and a higher average reserve per delinquency. Our loss ratio in Canada was 24% and 23% for the three and nine months ended September 30, 2016, respectively. We expect continuing economic pressure in oil-producing regions and seasonality during the fourth quarter of 2016 to drive our loss ratio in Canada for the full year ending December 31, 2016 to be higher than the nine months ended September 30, 2016.

In the third quarter of 2016, flow new insurance written volumes decreased in our mortgage insurance business in Canada compared to the third quarter of 2015 primarily due to targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in the current year. Compared to the second quarter of 2016, flow new insurance written increased due to a seasonally larger loan origination market in the third quarter of 2016. Given the underwriting changes as well as economic uncertainty, we expect lower net premiums written from flow mortgage insurance in 2016 compared to 2015. However, given the larger size of our more recent blocks of business and recent price increases, we expect earned premiums to be moderately higher in 2016 than in 2015 (excluding the impact from foreign exchange movements).

Bulk new insurance written levels were slightly higher in the third quarter of 2016 compared to the third quarter of 2015 and lower compared to the second quarter of 2016 due to variations in customer demand primarily associated with the timing of new regulations which restrict the use of bulk mortgage insurance. In Canada, our new insurance written from bulk mortgage insurance varies from period to period based on a number of factors, including the amount of portfolio mortgages lenders seek to insure, the competitiveness of our pricing and our risk appetite for such mortgage insurance. On June 6, 2015, the Canadian government published draft regulations to limit bulk mortgage insurance to only those mortgages that will be used in Canada Mortgage and Housing Corporation securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations after a phase-in period for existing private securitizations. The regulations became effective on July 1, 2016 and resulted in a significant increase in demand for bulk mortgage insurance in Canada particularly in the second quarter of 2016 in advance of the new regulation s effective date and a decrease in demand in the third quarter of 2016. We anticipate a significant decrease in demand for bulk new insurance written for the remainder of 2016 and going forward as a result of these new regulations. However, we expect bulk new insurance written to be higher for the year ending December 31, 2016 as compared to 2015.

We are subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada) ( PRMHIA ). Under PRMHIA and the Insurance Companies Act (Canada), our mortgage insurance business in Canada is required to meet a minimum capital test ( MCT ) to support its outstanding mortgage insurance in-force. The MCT ratio is calculated based on a methodology prescribed by the Office of the Superintendent of Financial Institutions ( OSFI ). The Department of Finance in Canada has established a target

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MCT ratio for our mortgage insurance business in Canada of 175% under PRMHIA. We regularly review our capital levels and, after reviewing stress testing results and consulting with OSFI in 2014, we have established an operating MCT holding target of 220% pending the development of the new capital framework for mortgage insurers, which is targeted for implementation in 2017. As of September 30, 2016, our MCT ratio was approximately 236%, which was above the MCT holding target.

On September 23, 2016, OSFI released a draft advisory for comment titled Capital Requirements for Federally Regulated Mortgage Insurers. This draft advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The proposed framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The comment period for the draft advisory ended on October 21, 2016, after which OSFI intends to finalize the advisory. The finalized advisory is expected to come into force on January 1, 2017.

Under the new proposed regulatory capital framework set forth in the draft advisory, the current Holding Target of 220% will be recalibrated to the OSFI Supervisory MCT Target of 150%. As a result, Genworth Canada s reported MCT ratio under the new proposed standard framework will be significantly different than the ratio under the current MCT capital model. We expect that the capital required for certain loan-to-value categories may increase on January 1, 2017 and this could lead to a corresponding increase in premium rates.

Based on the new proposed framework, we estimate that Genworth Canada s pro forma MCT ratio as of September 30, 2016 would have been in the range of 155% to 158%. As a result, Genworth Canada expects to be compliant with the new proposed framework upon its implementation on January 1, 2017, subject to business and market conditions. Further changes to the new proposed standard framework may be made by OSFI as a result of comments and input received during the consultation period, which ended on October 21, 2016. Genworth Canada continues to work with OSFI to further refine the new proposed regulatory capital framework in specific areas.

On October 3, 2016, the Minister of Finance announced a number of changes designed to reinforce the Canadian housing finance system. Effective October 17, 2016, all insured homebuyers must qualify for mortgage insurance based on more restrictive guidelines compared to the prior requirements including a mortgage rate stress test. Additionally, effective November 30, 2016, insured mortgages with loan-to-values less than or equal to 80% must meet new requirements that currently only apply to high loan-to-value insured mortgages. We believe these changes in regulatory requirements will cause our flow and bulk new insurance written to decline.

On October 21, 2016, the Federal government launched a public consultation on a policy option that would require mortgage lenders to manage a portion of loan losses on insured mortgages that default, known as lender risk sharing. This would transfer some of the risk borne by mortgage insurers and taxpayers to lenders. The comment period for this consultation ends on February 28, 2017. At this time, it is too early to determine the potential impact of this process and its ultimate outcome on our business.

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***Segment results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

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

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 124 | $ 116 | $ 8 | 7% |
| Net investment income | 33 | 32 | 1 | 3% |
| Net investment gains (losses) | | (23) | 23 | 100% |
| Policy fees and other income | (1) | (1) | | % |
| Total revenues | 156 | 124 | 32 | 26% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 30 | 24 | 6 | 25% |
| Acquisition and operating expenses, net of deferrals | 21 | 16 | 5 | 31% |
| Amortization of deferred acquisition costs and intangibles | 10 | 9 | 1 | 11% |
| Interest expense | 5 | 5 | | % |
| Total benefits and expenses | 66 | 54 | 12 | 22% |
| Income from continuing operations before income taxes | 90 | 70 | 20 | 29% |
| Provision for income taxes | 24 | 17 | 7 | 41% |
| Income from continuing operations | 66 | 53 | 13 | 25% |
| Less: income from continuing operations attributable to noncontrolling interests | 30 | 24 | 6 | 25% |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders | 36 | 29 | 7 | 24% |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment (gains) losses, net [(1)] | | 13 | (13) | (100)% |
| Taxes on adjustments | | (4) | 4 | 100% |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 36 | $ 38 | $ (2) | (5)% |

(1) For the three months ended 2015, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $(10) million.

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

Net operating income available to Genworth Financial, Inc.  s common stockholders decreased mainly driven by higher losses and operating expenses, partially offset by higher premiums in the current year.

***Revenues***

Premiums increased principally from the seasoning of our larger, more recent in-force blocks of business in the current year. The three months ended September 30, 2016 included a decrease of $2 million attributable to changes in foreign exchange rates.

Net investment losses in the prior year were primarily related to derivative losses largely from hedging non-functional currency transactions.

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***Benefits and expenses***

Benefits and other changes in policy reserves increased largely attributable to an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity as a result of economic pressure in oil-producing regions in the current year. The three months ended September 30, 2016 included a decrease of $1 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, increased mainly driven by higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year compared to a decrease in Genworth Canada s share price in the prior year.

*Provision for income taxes.* The effective tax rate increased to 26.7% for three months ended September 30, 2016 from 23.8% for the three months ended September 30, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income in the current year. The three months ended September 30, 2016 included a decrease of $1 million attributable to changes in foreign exchange rates.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| **(Amounts in millions)** | **Nine months ended September 30, 2016** | **2015** | **Increase (decrease) and percentage change 2016 vs. 2015** | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 357 | $ 351 | $ 6 | 2% |
| Net investment income | 94 | 99 | (5) | (5)% |
| Net investment gains (losses) | 12 | (21) | 33 | 157% |
| Total revenues | 463 | 429 | 34 | 8% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 81 | 70 | 11 | 16% |
| Acquisition and operating expenses, net of deferrals | 58 | 50 | 8 | 16% |
| Amortization of deferred acquisition costs and intangibles | 29 | 27 | 2 | 7% |
| Interest expense | 13 | 14 | (1) | (7)% |
| Total benefits and expenses | 181 | 161 | 20 | 12% |
| Income from continuing operations before income taxes | 282 | 268 | 14 | 5% |
| Provision for income taxes | 76 | 70 | 6 | 9% |
| Income from continuing operations | 206 | 198 | 8 | 4% |
| | 94 | 91 | 3 | 3% |

| | | | | |
|---|---|---|---|---|
| Less: income from continuing operations attributable to noncontrolling interests | | | | |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders | 112 | 107 | 5 | 5% |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment (gains) losses, net [1] | (7) | 12 | (19) | (158)% |
| Taxes on adjustments | 2 | (4) | 6 | 150% |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 107 | $ 115 | $ (8) | (7)% |

(1) For the nine months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $5 million and $(9) million, respectively.

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

Net operating income available to Genworth Financial, Inc. s common stockholders decreased driven by an $8 million decrease attributable to changes in foreign exchange rates during the nine months ended September 30, 2016.

***Revenues***

Premiums increased primarily from the seasoning of our larger, more recent in-force blocks of business in the current year. The nine months ended September 30, 2016 included a decrease of $25 million attributable to changes in foreign exchange rates.

Net investment income decreased primarily from a $7 million decrease attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, net investment income increased from higher average invested assets, partially offset by lower yields in the current year.

Net investment gains in the current year were primarily related to derivative gains largely from hedging non-functional currency transactions, partially offset by impairments in the current year. Net investment losses in the prior year were mainly related to derivative losses largely from hedging non-functional currency transactions, partially offset by net gains from the sale of investment securities. The nine months ended September 30, 2016 included a decrease of $2 million attributable to changes in foreign exchange rates.

***Benefits and expenses***

Benefits and other changes in policy reserves increased primarily attributable to an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity as a result of economic pressure in oil-producing regions in the current year. The nine months ended September 30, 2016 included a decrease of $6 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, increased mainly driven by higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year compared to a decrease in Genworth Canada s share price in the prior year. The nine months ended September 30, 2016 included a decrease of $3 million attributable to changes in foreign exchange rates.

Amortization of deferred acquisition costs and intangibles increased primarily from higher DAC amortization related to the larger, more recent in-force blocks of business in the current year. The nine months ended September 30, 2016 included a decrease of $2 million attributable to changes in foreign exchange rates.

*Provision for income taxes.* The effective tax rate increased to 27.1% for the nine months ended September 30, 2016 from 26.2% for the nine months ended September 30, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income in the current year. The nine months ended September 30, 2016 included a decrease of $6 million attributable to changes in foreign exchange rates.

***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, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Primary insurance in-force | $ 347,300 | $ 292,000 | $ 55,300 | 19% |
| Risk in-force | 121,500 | 102,200 | 19,300 | 19% |

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | | Nine months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|---|---|---|---|
| New insurance written | $ 10,400 | $ 11,400 | $ (1,000) | (9)% | $ 40,200 | $ 28,400 | $ 11,800 | 42% |
| Net premiums written | 172 | 204 | (32) | (16)% | 447 | 479 | (32) | (7)% |

*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, 2016 and 2015, this factor was 35%.

Primary insurance in-force and risk in-force increased primarily as a result of flow new insurance written and bulk mortgage insurance activity. Insurance in-force and risk in-force included increases of $6.1 billion and $2.1 billion, respectively, attributable to changes in foreign exchange rates.

*New insurance written*

New insurance written decreased for the three months ended September 30, 2016 primarily as a result of lower flow mortgage insurance activity. New insurance written increased for the nine months ended September 30, 2016 primarily as a result of higher bulk mortgage insurance activity, partially offset by lower flow new insurance written. For the three and nine months ended September 30, 2016, flow new insurance written decreased $1.3 billion and $3.1 billion, respectively, as a result of targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in the current year. For the nine months ended September 30, 2016, bulk mortgage insurance activity increased $14.9 billion driven by increased demand prior to changes to regulations that restrict the use of bulk mortgage insurance that became effective on July 1, 2016. The three and nine months ended September 30, 2016 included decreases of $0.2 billion and $2.3 billion, 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. As of September 30, 2016, our unearned premium reserves were $1,628 million, compared to $1,467 million as of September 30, 2015.

Net premiums written decreased for the three and nine months ended September 30, 2016 primarily from lower flow mortgage insurance volume from targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in the current year. The decrease for the nine months ended September 30, 2016 was partially offset by higher bulk mortgage insurance activity from higher customer demand prior to changes to regulations that restrict the use of bulk mortgage insurance that became effective on July 1, 2016, as well as a higher flow mortgage insurance average premium rate resulting from the rate increase implemented in June 2015. The three and nine months ended September 30, 2016 included decreases of $3 million and $25 million, respectively, attributable to changes in foreign exchange rates.

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*Loss and expense ratios*

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

| | Three months ended September 30, | | Increase (decrease) | Nine months ended September 30, | | Increase (decrease) |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| Loss ratio | 24% | 21% | 3% | 23% | 20% | 3% |
| Expense ratio (net earned premiums) | 24% | 22% | 2% | 24% | 22% | 2% |
| Expense ratio (net premiums written) | 18% | 12% | 6% | 19% | 16% | 3% |

The loss ratio is the ratio of incurred losses and loss adjustment expenses 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 three and nine months ended September 30, 2016 primarily from an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity as a result of economic pressure in oil-producing regions in the current year.

The expense ratio (net earned premiums) increased for the three and nine months ended September 30, 2016 primarily attributable to higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year compared to a decrease in Genworth Canada s share price in the prior year.

The expense ratio (net premiums written) increased for the three and nine months ended September 30, 2016 primarily attributable to higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year compared to a decrease in Genworth Canada s share price in the prior year, as well as lower 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 Canada mortgage insurance portfolio as of the dates indicated:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Primary insured loans in-force | 2,006,484 | 1,835,916 | 1,785,541 |
| Delinquent loans | 2,027 | 1,829 | 1,715 |
| Percentage of delinquent loans (delinquency rate) | 0.10% | 0.10% | 0.10% |
| Flow loans in-force | 1,379,020 | 1,331,773 | 1,313,034 |
| Flow delinquent loans | 1,715 | 1,550 | 1,449 |

| | | | |
|---|---|---|---|
| Percentage of flow delinquent loans (delinquency rate) | 0.12% | 0.12% | 0.11% |
| Bulk loans in-force | 627,464 | 504,143 | 472,507 |
| Bulk delinquent loans | 312 | 279 | 266 |
| Percentage of bulk delinquent loans (delinquency rate) | 0.05% | 0.06% | 0.06% |

Flow mortgage loans in-force increased from new policies written and bulk mortgage loans in-force increased from higher bulk activity, particularly in the second quarter of 2016. The number of delinquent loans increased primarily from ongoing economic pressure in oil-producing regions.

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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.

| | Percent of primary risk in-force as of September 30, 2016 | Delinquency rate | | |
|---|---|---|---|---|
| | | September 30, 2016 | December 31, 2015 | September 30, 2015 |
| By province and territory: | | | | |
| Ontario | 46% | 0.04% | 0.05% | 0.05% |
| Alberta | 16 | 0.22% | 0.12% | 0.10% |
| British Columbia | 15 | 0.07% | 0.08% | 0.10% |
| Quebec | 13 | 0.15% | 0.19% | 0.18% |
| Saskatchewan | 3 | 0.27% | 0.17% | 0.15% |
| Nova Scotia | 2 | 0.20% | 0.18% | 0.20% |
| Manitoba | 2 | 0.08% | 0.09% | 0.08% |
| New Brunswick | 1 | 0.15% | 0.20% | 0.19% |
| All other | 2 | 0.14% | 0.13% | 0.11% |
| Total | 100% | 0.10% | 0.10% | 0.10% |

Delinquency rates were flat as increases in commodity-dependent regions due to economic pressure were offset by decreases in other provinces.

As a part of enhanced lender reporting, we receive updated outstanding loans in-force in Canada from most of our customers on a quarter lag. Based on the data provided by lenders, the 2016 delinquency rate as of June 30, 2016 was 0.20%, reflecting a lower number of outstanding loans and related policies in-force compared to our reported policies in-force using the original terms of the loan.

**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 2016, the U.S. dollar weakened against the Australian dollar as compared to both the third quarter of 2015 and the second quarter of 2016, which positively 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 gross domestic product is expected to have moderate growth in the third quarter of 2016, as sustained low interest rates and depreciation of the Australian dollar have continued to support the rebalancing of economic activity toward non-resource sectors. The cash rate was lowered from 1.75% to 1.50% in the third quarter of 2016. The September 2016 unemployment rate fell to 5.6% from 5.8% at the end of the second quarter of 2016.

Home prices in Australia continued to appreciate in the third quarter of 2016, with September 2016 home values approximately 7% higher than a year ago and approximately 3% higher than at the end of the second quarter of 2016. The Sydney and Melbourne housing markets continue to be the major driver with annual home price growth of approximately 10% and 9%, respectively, as of the end of the third quarter of 2016. We expect home price appreciation for 2016 will moderate compared to 2015 levels.

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Our mortgage insurance business in Australia had higher losses in the third quarter of 2016 compared to both the third quarter of 2015 and the second quarter of 2016 largely due to a higher average reserve per delinquency resulting from aging pressure in commodity-dependent regions, where production activity has been depressed. In comparison with the third quarter of 2015, the increase in loss reserves was also attributable to higher new delinquencies. The loss ratio in the aggregate in Australia for the three and nine months ended September 30, 2016 was 42% and 35%, respectively. We will continue to closely monitor these economic conditions and assess their impact on our business.

In the third quarter of 2016, our mortgage insurance business in Australia experienced a decrease in new insurance written volumes compared to both the third quarter of 2015 and the second quarter of 2016 primarily due to the Australian Prudential Regulation Authority s ( APRA ) continued focus on lending standards, investment lending and serviceability. Given the APRA restrictions and reduced customer business, new insurance written is expected to be lower in 2016 than in 2015.

In our mortgage insurance business in Australia, gross premiums written in the third quarter of 2016 were lower compared to both the third quarter of 2015 and the second quarter of 2016 driven by a decrease in volume, particularly a reduction in high loan-to-value mortgage origination volume resulting from regulatory changes restricting loans originated for investment properties and high loan-to-value lending. The average premium rate in our mortgage insurance business in Australia over the past year has also been impacted by the tighter lending standards resulting in a shift of our flow new insurance written to lower loan-to-value products that have a lower premium rate and risk. Consequently, we expect high loan-to-value mortgages in proportion to total originations to be lower in 2016 compared to 2015. This will likely result in a decrease in both gross premiums written and earned premiums in 2016 despite the price increase, which was effective in March 2016.

The term of the current supply and service contract with our largest customer in our mortgage insurance business in Australia is due to expire on December 31, 2016. In November 2016, we entered into a new contract with this customer and it takes effect on January 1, 2017 and has a term of three years.

Our mortgage insurance business in Australia evaluates its capital position in relation to the Prescribed Capital Amount ( PCA ) as determined by APRA, utilizing the Internal Capital Adequacy Assessment Process ( ICAAP ) 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, 2016, the estimated PCA ratio of our mortgage insurance business in Australia was approximately 155% representing a decrease from 156% as of June 30, 2016, largely resulting from the payment of both ordinary and special dividends in the third quarter of 2016.

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***Segment results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

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

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 88 | $ 92 | $ (4) | (4)% |
| Net investment income | 23 | 28 | (5) | (18)% |
| Net investment gains (losses) | 4 | 3 | 1 | 33% |
| Policy fees and other income | | (1) | 1 | 100% |
| Total revenues | 115 | 122 | (7) | (6)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 37 | 27 | 10 | 37% |
| Acquisition and operating expenses, net of deferrals | 23 | 27 | (4) | (15)% |
| Amortization of deferred acquisition costs and intangibles | 4 | 4 | | % |
| Interest expense | 2 | 3 | (1) | (33)% |
| Total benefits and expenses | 66 | 61 | 5 | 8% |
| Income from continuing operations before income taxes | 49 | 61 | (12) | (20)% |
| Provision for income taxes | 16 | 18 | (2) | (11)% |
| Income from continuing operations | 33 | 43 | (10) | (23)% |
| Less: income from continuing operations attributable to noncontrolling interests | 18 | 22 | (4) | (18)% |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders | 15 | 21 | (6) | (29)% |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment (gains) losses, net [2] | (2) | (1) | (1) | (100)% |
| (Gains) losses on early extinguishment of debt, net [3] | | 1 | (1) | (100)% |
| Taxes on adjustments | 1 | | 1 | NM[1] |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 14 | $ 21 | $ (7) | (33)% |

(1) We define NM as not meaningful for increases or decreases greater than 200%.
(2) For the three months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $2 million.
(3) For the three months ended September 30, 2015, (gains) losses on early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of $1 million.

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

Net operating income available to Genworth Financial, Inc. s common stockholders decreased primarily driven by higher losses and lower net investment income in the current year. The three months ended September 30, 2016 included an increase of $1 million attributable to changes in foreign exchange rates.

*Revenues*

Premiums decreased mainly driven by lower flow volume and the seasoning of our smaller prior year in-force blocks of business in the current year. The decrease was also attributable to a favorable adjustment of $8 million relating to refinements to premium recognition factors in the prior year that did not recur. These decreases were partially offset by higher policy cancellations, lower ceded reinsurance and higher premiums in the current year as a result of the premium recognition factors that were refined in the prior year. The three months ended September 30, 2016 included an increase of $1 million attributable to changes in foreign exchange rates.

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

*Benefits and expenses*

Benefits and other changes in policy reserves increased largely attributable to higher new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in the current year. The prior year included an increase in reserves of $9 million that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported.

Acquisition and operating expenses, net of deferrals, decreased primarily from an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021.

*Provision for income taxes.* The effective tax rate increased to 32.2% for the three months ended September 30, 2016 from 29.5% for the three months ended September 30, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income in the current year.

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***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| (Amounts in millions) | Nine months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 255 | $ 271 | $ (16) | (6)% |
| Net investment income | 72 | 89 | (17) | (19)% |
| Net investment gains (losses) | 6 | 4 | 2 | 50% |
| Policy fees and other income | | (4) | 4 | 100% |
| Total revenues | 333 | 360 | (27) | (8)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 89 | 66 | 23 | 35% |
| Acquisition and operating expenses, net of deferrals | 67 | 74 | (7) | (9)% |
| Amortization of deferred acquisition costs and intangibles | 11 | 14 | (3) | (21)% |
| Interest expense | 8 | 7 | 1 | 14% |
| Total benefits and expenses | 175 | 161 | 14 | 9% |
| Income from continuing operations before income taxes | 158 | 199 | (41) | (21)% |
| Provision for income taxes | 51 | 60 | (9) | (15)% |
| Income from continuing operations | 107 | 139 | (32) | (23)% |
| Less: income from continuing operations attributable to noncontrolling interests | 57 | 59 | (2) | (3)% |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders | 50 | 80 | (30) | (38)% |
| Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | |
| Net investment (gains) losses, net [2] | (3) | (1) | (2) | (200)% |
| (Gains) losses on early extinguishment of debt, net [3] | | 1 | (1) | (100)% |
| Taxes on adjustments | 1 | | 1 | NM[1] |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 48 | $ 80 | $ (32) | (40)% |

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

(2) For the nine months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of $3 million.

(3) For the nine months ended September 30, 2015, (gains) losses on early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of $1 million.

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

Net operating income available to Genworth Financial, Inc. s common stockholders decreased primarily driven by higher losses, as well as lower net investment income and premiums, partially offset by a decrease in taxes in the current year. The nine months ended September 30, 2016 also included a decrease of $3 million attributable to changes in foreign exchange rates.

***Revenues***

Premiums decreased primarily driven by a $13 million decrease attributable to changes in foreign exchange rates during the nine months ended September 30, 2016. Premiums also decreased from lower flow volume and the seasoning of our smaller prior year in-force blocks of business in the current year, as well as the termination of a customer relationship with respect to new business effective in the second quarter of 2015. The decrease was also attributable to a favorable adjustment of $8 million relating to refinements to premium recognition factors in the prior year that did not recur. These decreases were partially offset by higher policy cancellations, lower ceded reinsurance and higher premiums in the current year as a result of the premium recognition factors that were refined in the prior year.

Net investment income decreased primarily from lower average invested assets, lower yields and a $4 million decrease attributable to changes in foreign exchange rates during the nine months ended September 30, 2016.

Policy fees and other income in the prior year was a result of non-functional currency transactions attributable to remeasurement and repayment of intercompany loans that did not recur.

***Benefits and expenses***

Benefits and other changes in policy reserves increased largely attributable to higher new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in the current year. In addition, the prior year included a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur. These increases were partially offset by an increase in reserves of $9 million in the prior year that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. The nine months ended September 30, 2016 included a decrease of $4 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, decreased primarily from a decrease of $3 million attributable to changes in foreign exchange rates in the current year and an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021.

Amortization of deferred acquisition costs and intangibles decreased mainly driven by lower software amortization in the current year. The nine months ended September 30, 2016 included a decrease of $1 million attributable to changes in foreign exchange rates.

*Provision for income taxes.* The effective tax rate increased to 32.4% for the nine months ended September 30, 2016 from 30.0% for the nine months ended September 30, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income in the current year. The nine months ended September 30, 2016 included a decrease of $3 million attributable to changes in foreign exchange rates.

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

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, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Primary insurance in-force | $ 247,900 | $ 224,100 | $ 23,800 | 11% |
| Risk in-force | 86,300 | 78,400 | 7,900 | 10% |

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | | Nine months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|---|---|---|---|
| New insurance written | $ 4,600 | $ 6,300 | $ (1,700) | (27)% | $ 14,800 | $ 20,300 | $ (5,500) | (27)% |
| Net premiums written | 57 | 79 | (22) | (28)% | 169 | 273 | (104) | (38)% |

*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, 2016 and 2015, 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 increased primarily from increases of $21.0 billion and $7.3 billion, respectively, attributable to changes in foreign exchange rates and flow new insurance written.

*New insurance written*

New insurance written decreased for the three and nine months ended September 30, 2016 mainly attributable to a smaller high loan-to-value originations market primarily driven by a reduction in the amount of risk lenders are willing to take in the current year resulting from regulatory focus on the market. New insurance written for the nine months ended September 30, 2016 also decreased from the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The nine months ended September 30, 2016 included a decrease of $700 million attributable to changes in foreign exchange rates.

*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, 2016, our unearned premium reserves were $922 million, compared to $956 million as of September 30, 2015.

Net premiums written decreased for the three and nine months ended September 30, 2016 primarily from lower flow volume in the current year. Net premiums written for the nine months ended September 30, 2016 also decreased from changes in the loan-to-value mix in the current year, as well as the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The nine months ended September 30, 2016 included a decrease of $8 million attributable to changes in foreign exchange rates.

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*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 September 30, | | Increase (decrease) | Nine months ended September 30, | | Increase (decrease) |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 vs. 2015 | 2016 | 2015 | 2016 vs. 2015 |
| Loss ratio | 42% | 29% | 13% | 35% | 24% | 11% |
| Expense ratio (net earned premiums) | 31% | 34% | (3)% | 31% | 33% | (2)% |
| Expense ratio (net premiums written) | 48% | 40% | 8% | 46% | 32% | 14% |

The loss ratio is the ratio of incurred losses and loss adjustment expenses 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 increased for the three and nine months ended September 30, 2016 largely attributable to higher new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in the current year. The prior year included an increase in reserves of $9 that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. The prior year increase in reserves coupled with an increase in premiums of $8 million from refinements to premium recognition factors in the third quarter of 2015 increased the loss ratio by seven percentage points for the three months ended September 30, 2015. For the nine months ended September 30, 2016, the loss ratio also increased attributable to a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur.

The expense ratio (net earned premiums) decreased for the three and nine months ended September 30, 2016 from an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021. The early redemption payment of $2 million increased the expense ratio (net earned premiums) by two percentage points for the three months ended September 30, 2015.

The expense ratio (net premiums written) increased for the three and nine months ended September 30, 2016 primarily from lower net premiums written in the current year, partially offset by an early debt redemption payment of $2 million in July 2015 related to the redemption of AUD$90 million of Genworth Financial Mortgage Insurance Pty Limited s subordinated floating rate notes that were scheduled to mature in 2021. The early redemption payment of $2 million increased the expense ratio (net premiums written) by two percentage points for the three months ended September 30, 2015.

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*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:

| | September 30, 2016 | December 31, 2015 | September 30, 2015 |
|---|---|---|---|
| Primary insured loans in-force | 1,470,302 | 1,478,434 | 1,479,676 |
| Delinquent loans | 6,844 | 5,552 | 5,804 |
| Percentage of delinquent loans (delinquency rate) | 0.47% | 0.38% | 0.39% |
| Flow loans in-force | 1,358,286 | 1,364,628 | 1,364,537 |
| Flow delinquent loans | 6,574 | 5,317 | 5,545 |
| Percentage of flow delinquent loans (delinquency rate) | 0.48% | 0.39% | 0.41% |
| Bulk loans in-force | 112,016 | 113,806 | 115,139 |
| Bulk delinquent loans | 270 | 235 | 259 |
| Percentage of bulk delinquent loans (delinquency rate) | 0.24% | 0.21% | 0.22% |

Loans in-force decreased primarily from policy cancellations. Flow delinquent loans increased from higher new delinquencies primarily as a result of economic pressures in commodity-dependent regions.

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 of primary risk in-force as of September 30, 2016 | Delinquency rate | | |
|---|---|---|---|---|
| | | September 30, 2016 | December 31, 2015 | September 30, 2015 |
| By state and territory: | | | | |
| New South Wales | 28% | 0.32% | 0.27% | 0.30% |
| Queensland | 23 | 0.67% | 0.53% | 0.57% |
| Victoria | 23 | 0.39% | 0.33% | 0.35% |
| Western Australia | 12 | 0.69% | 0.46% | 0.45% |
| South Australia | 6 | 0.62% | 0.51% | 0.50% |
| Australian Capital Territory | 3 | 0.20% | 0.17% | 0.15% |
| Tasmania | 2 | 0.37% | 0.32% | 0.31% |
| New Zealand | 2 | 0.10% | 0.17% | 0.23% |
| Northern Territory | 1 | 0.33% | 0.17% | 0.21% |
| Total | 100% | 0.47% | 0.38% | 0.39% |

Delinquency rates increased in the current year compared to December 31, 2015 and September 30, 2015 primarily from higher new delinquencies in Queensland and Western Australia mainly attributable to economic pressures.

**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 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 detailed review of our claim reserve assumptions for our long-term care insurance business annually typically during the third quarter of each year. 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 basis annually. We performed our annual review of claim reserve assumptions for our long-term care insurance business in the third quarter of 2016. In the fourth quarter of 2016, we will perform assumption reviews for our other U.S. life insurance businesses as well as our loss recognition testing.

In addition, we will also continue to monitor our experience and assumptions closely and make changes to our assumptions and methodologies, as appropriate, for certain other U.S. life insurance products. In our assumption review in 2015, we looked at a number of assumptions, including older age mortality in our life insurance products and shock lapse in our term universal life insurance product as well as assumptions in our group long-term care insurance products, for which we did not make any changes at that time. We will review these and other assumptions, including interest rate assumptions, again in the fourth quarter of 2016 with the benefit of updated experience and comparisons to industry experience, where appropriate, and we will likely make changes to at least one or more of these or other assumptions with a resulting negative impact. We do not know whether such impact would be material or whether it would be offset by impacts from other assumption changes that may or may not occur. 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.

In addition, we intend to continue to enhance our modeling capabilities our various businesses, including for our long-term care insurance projections where we are migrating to a new modeling system and we expect to implement it for the majority of our long-term care insurance business in the fourth quarter of 2016. We anticipate migrating the remaining portion of our long-term care insurance business to this new modeling system in 2017 or later. This new modeling system is intended to segregate and refine assumptions based upon healthy and disabled insured lives, as compared to our total insured lives estimate we use today.

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 is significantly impacted by changes in interest rates. See Item 3 Quantitative and Qualitative Disclosures About Market Risk for additional information about interest rate risk associated with our U.S. life insurance businesses.

For a discussion of additional information related to potential changes to our assumptions and methodologies, including certain related sensitivities, see Critical Accounting Estimates as well as Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in our 2015 Annual Report on Form 10-K.

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*Long-term care insurance*

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

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. As previously disclosed, as part of our annual review in 2014, we updated our assumptions and methodologies primarily impacting claim termination rates and benefit utilization rates, resulting in increases to our long-term care insurance claim reserves. In the third quarter of 2015, we reviewed our claim reserve assumptions for our long-term care insurance business and based on experience, no adjustment was required. During the third quarter of 2016, we completed our annual review of assumptions and methodologies related to our long-term care insurance claim reserves, which resulted in recording higher claim reserves of $460 million and reinsurance recoverables of $25 million. This review incorporated two additional years of claims experience since our 2014 review and one year of additional experience since our 2015 review. Based on our review in the third quarter of 2016, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. For a discussion of additional information related to changes to our assumptions and methodologies, see Critical Accounting Estimates.

In the fourth quarter of 2016, we will perform our loss recognition and cash flow testing. We will incorporate the assumption and methodology changes made in the third quarter of 2016 into these tests. We anticipate these changes will have a material negative impact on the margins of our long-term care insurance blocks. The acquired block has a higher percentage of indemnity policies and therefore would be less likely to be adversely affected by the new claim assumptions. As a part of the process, we will consider incremental benefits from expected further rate actions that would help mitigate the impact of these changes. As part of the annual testing, we will also review assumptions for incidence and interest rates, among other assumptions. The analysis and work will be completed in the fourth quarter of 2016. We will continue to regularly review our methodologies and assumptions in light of emerging experience and may be required to make further adjustments to our long-term care insurance claim reserves in the future, which could also impact our loss recognition testing results. Any further materially adverse changes to our claim reserves or changes as a result of loss recognition testing may have a materially negative impact on our results of operations, financial condition and business. For a discussion of additional information related to changes to our assumptions and methodologies, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in our 2015 Annual Report on Form 10-K.

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 will decrease earnings in future periods in which the 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, unlimited benefit pools and higher inflation factors going on claim. Also, we expect growth in new claims as our blocks of business continue to age. We also expect the remaining quarterly benefits of our in-force rate actions, in aggregate, to be lower in the fourth quarter of 2016 than the levels we experienced in the first nine months of 2016 as the implementation of certain rate increase approvals were largely completed in the third quarter of 2016. In addition, premiums will decline 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 premium rate actions may also cause fluctuations in our loss ratios during the period when reserves are adjusted to reflect policyholders taking reduced benefits or nonforfeiture 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 in the third quarter of 2016 was 146%, reflecting our updated assumptions and methodologies from our review in the third quarter of 2016, compared to 70% in the second quarter of 2016 and 76% in the third quarter of 2015.

One of our strategic priorities was to repatriate all of the existing business, including our long-term care insurance business, held in BLAIC, our primary Bermuda domiciled captive reinsurance subsidiary. The repatriation was completed through the merger of BLAIC into GLIC in October 2016. There will be no impact on our consolidated results of operations and financial condition prepared in accordance with U.S. GAAP as the financial impact of this reinsurance had been eliminated in consolidation. However, there is expected to be an adverse impact on GLIC s risk-based capital ratio of between five and ten points in the fourth quarter of 2016.

Our long-term care insurance sales decreased 36% during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Sales decreased primarily due to our lower ratings and certain distributor suspensions driven by recent rating agency actions. We expect that our sales will continue to be adversely impacted by our current ratings. Recent adverse ratings announcements or actions may negatively impact our sales levels.

Despite our low sales levels in our long-term care insurance business given our current ratings, we continue to evaluate new products with appropriately priced products. For example, in the fourth quarter of 2014, we began filing for regulatory approval of 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 new 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.

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 levels vary and are 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. Since 2013, we have seen, and may continue to see through 2018, an increase in benefit costs if and when those policies that are no longer covered under this reinsurance go on claim.

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 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 on issued policies. For an update on rate actions, refer to Significant Developments U.S. Life Insurance. In the past, we have suspended new sales, and will consider taking similar actions in the future, in states where we are unable to obtain satisfactory rate increases on in-force policies as we did in Massachusetts, New Hampshire and Vermont. We will also consider litigation against states that decline actuarially justified rate increases. 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 several years. Upon approval, insureds are provided with written notice of the increase and increases are generally applied on the insured s next policy anniversary date. Therefore, 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.

In 2009, the Pennsylvania Insurance Commissioner (the Commissioner ) placed long-term care insurer Penn Treaty Network Company America Insurance Company and one of its subsidiaries (collectively, Penn Treaty ) in rehabilitation, an intermediate action before insolvency, and subsequently petitioned a state court to convert the rehabilitation into a liquidation. In 2012, the state court denied the Commissioner s petition for liquidation and ordered the Commissioner to develop a plan of rehabilitation. In July 2016, the Commissioner petitioned the state court to convert the rehabilitation into liquidation. The state court granted a hearing on November 9, 2016 for the Commissioner s petition to convert the rehabilitation into liquidation. In the event Penn Treaty is placed in liquidation, we and other insurers likely would be assessed immediately or over a period of years by guaranty associations for the payments the guaranty associations are required to make to Penn Treaty policyholders. As of September 30, 2016, we were unable to estimate when or to what extent Penn Treaty will ultimately be declared insolvent, or the amount of the insolvency. As such, we have not established any accruals for guaranty fund assessments associated with Penn Treaty as of September 30, 2016. We will continue to monitor the situation and may record a liability and expense in future reporting periods.

*Life insurance*

Results of our life insurance business are impacted primarily by sales, competitor actions, mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements, among other factors.

In February 2016, because of low sales and our lower ratings, we announced our decision to suspend sales of our traditional life insurance products on March 7, 2016. Life insurance sales decreased 68% during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease in our sales was predominantly related to our decision to suspend sales, our competitive positioning in the marketplace and distributor suspensions following adverse rating actions.

In 2015 and during the first nine months of 2016, mortality experience was favorable to pricing expectations for our term life insurance products but unfavorable for our universal life insurance products. Mortality levels may deviate each period from historical trends. 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 transition to their post-level guaranteed 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-level guaranteed 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 is lower than our original assumptions as it has been on our 10- and 15-year business written in 1999 and 2000. As of September 30, 2016, our term life insurance products had a DAC balance of $1.4 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.

A portion of our life insurance reserves are financed through captive reinsurance structures. The financing cost of certain captive reinsurance structures is determined in part by the financial strength ratings of our principal life insurance subsidiaries. As a result of the ratings downgrade of our principal life insurance subsidiaries in February

2016, the cost of financing increased for a portion of our captive-financed reserves by approximately $1 million per quarter. However, in April 2016, we successfully refinanced an existing reinsurance structure, which improved after-tax earnings by approximately $15 million by reducing interest expense.

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As part of our strategic priority to repatriate all of the existing business held in BLAIC, effective April 1, 2016, we recaptured a block of universal life insurance from BLAIC to GLAIC. In addition, effective July 1, 2016, we also recaptured a block of term life insurance from BLAIC to GLAIC and terminated a term life insurance excess of loss treaty with BLAIC. Effective September 1, 2016, GLAIC entered into a reinsurance agreement, subject to regulatory approval, to cede a block of term life insurance, which primarily includes the business previously ceded to BLAIC, to an affiliated reinsurer. As previously discussed, the repatriation was completed in October 2016.

*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, expense and commission levels, product sales, competitor actions and competitiveness of our offerings.

In February 2016, we announced our decision to suspend sales of our traditional fixed annuity products on March 7, 2016. Sales of fixed annuities decreased 78% during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was largely as a result of our lower rating, distributor actions and our decision to suspend sales.

We monitor and change crediting rates on fixed annuities on a regular basis to maintain spreads and targeted returns. However, if interest rates remain at current levels or decrease further, we could see declines in spreads. For fixed indexed annuities, equity market performance and volatility could result in additional gains or losses, although associated hedging activities are expected to partially mitigate these impacts.

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***Segment results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

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

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 725 | $ 784 | $ (59) | (8)% |
| Net investment income | 695 | 680 | 15 | 2% |
| Net investment gains (losses) | 21 | (16) | 37 | NM[1] |
| Policy fees and other income | 175 | 177 | (2) | (1)% |
| Total revenues | 1,616 | 1,625 | (9) | (1)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 1,556 | 1,155 | 401 | 35% |
| Interest credited | 140 | 148 | (8) | (5)% |
| Acquisition and operating expenses, net of deferrals | 149 | 176 | (27) | (15)% |
| Amortization of deferred acquisition costs and intangibles | 69 | 530 | (461) | (87)% |
| Interest expense | 2 | 22 | (20) | (91)% |
| Total benefits and expenses | 1,916 | 2,031 | (115) | (6)% |
| Loss from continuing operations before income taxes | (300) | (406) | 106 | 26% |
| Benefit for income taxes | (106) | (144) | 38 | 26% |
| Loss from continuing operations | (194) | (262) | 68 | 26% |
| Adjustments to loss from continuing operations: | | | | |
| Net investment (gains) losses, net [2] | (21) | 10 | (31) | NM[1] |
| (Gains) losses from life block transactions | | 455 | (455) | (100)% |
| Expenses related to restructuring | 1 | | 1 | NM[1] |
| Taxes on adjustments | 7 | (163) | 170 | 104% |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (207) | $ 40 | $ (247) | NM[1] |

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

(2)

For the three months ended September 30, 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(6) million.

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The following table sets forth net 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, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | | |
| Long-term care insurance | $ (270) | $ (10) | $ (260) | NM[1] |
| Life insurance | 48 | 31 | 17 | 55% |
| Fixed annuities | 15 | 19 | (4) | (21)% |
| Total net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (207) | $ 40 | $ (247) | NM[1] |

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

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

The net operating loss available to Genworth Financial, Inc. s common stockholders for our long-term care insurance business increased $260 million primarily related to higher claim reserves of $283 million as a result of the completion of our annual review of our claim reserves conducted during the third quarter of 2016. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). These increases were partially offset by higher premiums and reduced benefits of $35 million in the current year from in-force rate actions approved and implemented.

Our life insurance business increased $17 million principally from lower financing costs in the current year.

Our fixed annuities business decreased $4 million predominantly from lower investment income and an $8 million unfavorable correction related to state guaranty funds, partially offset by lower interest credited and less unfavorable mortality in the current year.

***Revenues***

*Premiums*

Our long-term care insurance business decreased $8 million largely from policy terminations and lower sales in the current year. This decrease was partially offset by $32 million of increased premiums in the current year from in-force rate actions approved and implemented.

Our life insurance business decreased $47 million mainly attributable to higher ceded reinsurance and lower sales in the current year.

Our fixed annuities business decreased $4 million principally from lower sales of our life-contingent products in the current year.

*Net investment income*

Our long-term care insurance business increased $26 million largely from higher average invested assets due to growth of our in-force block and $5 million of higher income related to inflation-driven volatility on recent U.S. Government Treasury Inflation Protected Securities ( TIPS ) purchases, partially offset by lower reinvestment yields in the current year.

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Our life insurance business increased $2 million principally from a $4 million favorable prepayment speed adjustment on structured securities in the current year compared to a $3 million unfavorable prepayment speed adjustment in the prior year. This increase was mostly offset by lower average invested assets in the current year.

Our fixed annuities business decreased $13 million largely due to lower average invested assets in the current year.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business increased $13 million largely related to higher net gains from the sale of investment securities, partially offset by lower derivative gains in the current year.

In the current year, net investment gains of $4 million in our life insurance business were mostly attributable to gains on embedded derivatives related to our indexed universal life insurance products. Net investment losses of $8 million in the prior year were largely related to impairments.

Net investment losses in our fixed annuities business decreased $12 million predominantly from lower net losses on embedded derivatives related to our fixed indexed annuities and net gains from the sale of investment securities in the current year compared to net losses in the prior year.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased $437 million principally from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in the current year. These increases were partially offset by reduced benefits of $24 million in the current year related to in-force rate actions approved and implemented.

Our life insurance business decreased $32 million principally related to higher ceded reinsurance and favorable mortality in our term life insurance products, partially offset by unfavorable mortality in our universal life insurance products in the current year.

Our fixed annuities business decreased $4 million largely attributable to lower interest credited, lower sales of our life-contingent products and less unfavorable mortality in the current year. These decreases were partially offset by an increase in reserves of $6 million related to loss recognition testing in our fixed immediate annuity products primarily driven by aging of the in-force and the low interest rate environment in the current year (see Critical Accounting Estimates for additional information).

*Interest credited.* Interest credited decreased driven mostly by our fixed annuities business predominantly from a decrease in crediting rates and lower average account values in the current year.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business decreased $17 million principally from lower sales in the current year.

Our life insurance business decreased $17 million primarily from lower sales in the current year.

Our fixed annuities business increased $7 million largely attributable to a $12 million unfavorable correction related to state guaranty funds, partially offset by lower sales in the current year.

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*Amortization of deferred acquisition costs and intangibles.* The decrease in amortization of DAC and intangibles was primarily related to our life insurance business principally from a $455 million impairment of DAC as a result of loss recognition testing of certain term life insurance policies in the prior year as part of a life block transaction that did not recur and from lower lapses in the current year.

*Interest expense.* Interest expense decreased driven by our life insurance business principally as a result of the redemption of certain non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016 and from letter of credit fees in the prior year that did not recur.

*Benefit for income taxes.* The effective tax rate was 35.3% for the three months ended September 30, 2016 and 2015.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| **(Amounts in millions)** | **Nine months ended September 30, 2016** | **2015** | **Increase (decrease) and percentage change 2016 vs. 2015** | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 1,917 | $ 2,331 | $ (414) | (18)% |
| Net investment income | 2,049 | 2,028 | 21 | 1% |
| Net investment gains (losses) | 119 | (27) | 146 | NM[(1)] |
| Policy fees and other income | 532 | 539 | (7) | (1)% |
| Total revenues | 4,617 | 4,871 | (254) | (5)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 3,403 | 3,368 | 35 | 1% |
| Interest credited | 427 | 448 | (21) | (5)% |
| Acquisition and operating expenses, net of deferrals | 513 | 506 | 7 | 1% |
| Amortization of deferred acquisition costs and intangibles | 231 | 678 | (447) | (66)% |
| Interest expense | 35 | 69 | (34) | (49)% |
| Total benefits and expenses | 4,609 | 5,069 | (460) | (9)% |
| Income (loss) from continuing operations before income taxes | 8 | (198) | 206 | 104% |
| Provision (benefit) for income taxes | 3 | (70) | 73 | 104% |
| Income (loss) from continuing operations | 5 | (128) | 133 | 104% |
| Adjustments to income (loss) from continuing operations: | | | | |
| Net investment (gains) losses, net [(2)] | (129) | 15 | (144) | NM[(1)] |
| (Gains) losses from life block transactions | 9 | 455 | (446) | (98)% |
| Expenses related to restructuring | 19 | 2 | 17 | NM[(1)] |

| | | | | | | |
|---|---|---|---|---|---|---|
| (Gains) losses on sale of businesses | | (1) | | | (1) | NM[1] |
| Taxes on adjustments | | 36 | | (166) | 202 | 122% |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ | (61) | $ | 178 | $ (239) | (134)% |

[1] We define NM as not meaningful for increases or decreases greater than 200%.

[2] For the nine months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(10) million and $(12) million, respectively.

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The following table sets forth net 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 September 30, 2016 | Nine months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | | |
| Long-term care insurance | $ (199) | $ 10 | $ (209) | NM[1] |
| Life insurance | 110 | 93 | 17 | 18% |
| Fixed annuities | 28 | 75 | (47) | (63)% |
| Total net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (61) | $ 178 | $ (239) | (134)% |

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

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

Our long-term care insurance business had a net operating loss available to Genworth Financial, Inc. s common stockholders of $199 million in the current year compared to net operating income available to Genworth Financial, Inc. s common stockholders of $10 million in the prior year largely related to the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $283 million. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The current year also included $44 million of unfavorable adjustments which included refinements to the calculations of reserves. These decreases were partially offset by higher premiums and reduced benefits of $141 million in the current year from in-force rate actions approved and implemented.

Our life insurance business increased $17 million principally from lower financing costs and favorable mortality and lapses in our term life insurance products, partially offset by higher reserves in our universal and term universal life insurance products reflecting our updated assumptions from the fourth quarter of 2015.

Our fixed annuities business decreased $47 million primarily related to loss recognition testing in our fixed immediate annuity products that resulted in a charge of $25 million driven primarily by the low interest rate environment in the current year (see Critical Accounting Estimates for additional information). The decrease was also attributable to an $8 million unfavorable correction related to state guaranty funds, a $7 million net unfavorable impact from the recapture of certain life-contingent products by a third party, lower investment income and unfavorable mortality in the current year.

***Revenues***

*Premiums*

Our long-term care insurance business increased $60 million principally from $100 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations and lower sales in the current year.

Our life insurance business decreased $460 million attributable to higher ceded reinsurance and lower sales in the current year. In the first quarter of 2016, we initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction.

Our fixed annuities business decreased $14 million principally from lower sales of our life-contingent products in the current year.

*Net investment income*

Our long-term care insurance business increased $66 million largely from higher average invested assets due to growth of our in-force block and $8 million of higher income related to inflation-driven volatility on TIPS purchases, partially offset by lower reinvestment yields and $8 million of lower gains from bond calls and mortgage loan prepayments in the current year.

Our fixed annuities business decreased $43 million largely due to lower average invested assets, $8 million of lower gains from limited partnerships and $4 million of lower gains from bond calls and mortgage loan prepayments in the current year.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business increased $156 million primarily related to net gains of $130 million from the sale of TIPS and higher derivative gains in the current year.

In the current year, net investment gains of $5 million in our life insurance business were predominantly related to gains on embedded derivatives related to our indexed universal life insurance products, partially offset by impairments. Net investment losses of $2 million in the prior year were largely related to impairments, partially offset by net gains from the sale of investment securities.

Net investment losses in our fixed annuities business increased $17 million predominantly from higher impairments and higher net losses from the sale of investment securities in the current year. These increases were partially offset by lower net losses on embedded derivatives related to our fixed indexed annuities in the current year.

*Policy fees and other income.* The decrease was primarily attributable to our life insurance business largely related to lower sales and a decrease in our term universal and universal life insurance in-force blocks in the current year.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased $473 million principally from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The increase was also attributable to aging and growth of the in-force block, higher severity on new claims and $68 million of unfavorable adjustments, which included refinements to the calculations of reserves in the current year. These increases were partially offset by reduced benefits of $125 million in the current year related to in-force rate actions approved and implemented.

Our life insurance business decreased $404 million principally related to higher ceded reinsurance and favorable mortality in our term life insurance products in the current year. In the first quarter of 2016, we initially ceded $331 million of certain term life insurance reserves under a new reinsurance treaty as part of a life block transaction. These decreases were partially offset by higher reserves in our universal and term universal life insurance products reflecting our updated assumptions from the fourth quarter of 2015.

Our fixed annuities business decreased $34 million largely attributable to $45 million of lower assumed reinsurance in connection with the recapture of certain life-contingent products by a third party in the current year. The decrease was also attributable to lower sales of our life-contingent products and lower interest credited in the current year. These decreases were partially offset by an increase in reserves of

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$24 million related to loss recognition testing in our fixed immediate annuity products driven primarily by the low interest rate environment (see Critical Accounting Estimates for additional information). The decrease was also partially offset by unfavorable mortality in the current year.

*Interest credited*

Our life insurance business decreased $7 million predominantly from lower crediting rates in our universal life insurance products in the current year.

Our fixed annuities business decreased $14 million largely driven by a decrease 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 $22 million predominantly from lower sales and marketing costs, partially offset by $6 million in restructuring charges and a $3 million write-off of a receivable associated with a disputed reinsurance claim in the current year.

Our life insurance business decreased $30 million primarily related to lower sales, partially offset by $7 million in restructuring charges in the current year.

Our fixed annuities business increased $59 million largely attributable to a $55 million ceding commission paid in connection with the recapture of certain life-contingent products by a third party, an unfavorable correction of $12 million related to state guaranty funds and a $3 million restructuring charge, partially offset by lower sales in the current year.

*Amortization of deferred acquisition costs and intangibles*

Our life insurance business decreased $463 million principally related to an impairment of DAC of $455 million as a result of loss recognition testing of certain term life insurance policies in the prior year as part of a life block transaction that did not recur and from lower lapses in the current year.

Our fixed annuities business increased $13 million predominantly related to the write-off of DAC in connection with loss recognition testing in our fixed immediate annuity products of $14 million driven primarily by the low interest rate environment in the current year (see Critical Accounting Estimates for additional information).

*Interest expense.* Interest expense decreased driven by our life insurance business principally as a result of the redemption of certain non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016 and lower letter of credit fees. These decreases were partially offset by the write-off of $9 million of deferred borrowing costs associated with our non-recourse funding obligations as part of a life block transaction and the impact of credit rating downgrades which increased the cost of financing term life insurance reserves in the current year.

*Provision (benefit) for income taxes.* The effective tax rate was 35.3% for the nine months ended September 30, 2016 and 2015.

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

***Long-term care insurance***

The following table sets forth selected operating performance measures regarding our individual and group long-term care insurance products for the periods indicated:

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | | Nine months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|---|---|---|---|
| Net earned premiums: | | | | | | | | |
| Individual long-term care insurance | $ 591 | $ 591 | $ | % | $ 1,792 | $ 1,723 | $ 69 | 4% |
| Group long-term care insurance | 19 | 27 | (8) | (30)% | 72 | 81 | (9) | (11)% |
| Total | $ 610 | $ 618 | $ (8) | (1)% | $ 1,864 | $ 1,804 | $ 60 | 3% |
| Annualized first-year premiums and deposits: | | | | | | | | |
| Individual long-term care insurance | $ 2 | $ 7 | $ (5) | (71)% | $ 11 | $ 25 | $ (14) | (56)% |
| Group long-term care insurance | 3 | 1 | 2 | 200% | 7 | 3 | 4 | 133% |
| Total | $ 5 | $ 8 | $ (3) | (38)% | $ 18 | $ 28 | $ (10) | (36)% |
| Loss ratio | 146% | 76% | 70% | | 94% | 74% | 20% | |

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 decreased for the three months ended September 30, 2016 largely from policy terminations and lower sales in the current year. This decrease was partially offset by $32 million of increased premiums in the current year from in-force rate actions approved and implemented.

Net earned premiums increased for the nine months ended September 30, 2016 mostly from $100 million of increased premiums in the current year from in-force rate actions approved and implemented, partially offset by policy terminations and lower sales in the current year.

Annualized first-year premiums and deposits decreased principally from reduced sales due to higher pricing on newer products and certain distributor suspensions driven by rating agency actions.

The loss ratio increased for the three and nine months ended September 30, 2016 largely from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). For the three months ended September 30, 2016, this increase was partially offset by $56 million of higher premiums and reduced benefits in the current year related to in-force rate actions approved and implemented. For the nine months ended September 30, 2016, the increase was also attributable to higher severity on new claims and $68 million of unfavorable adjustments, which included refinements to the calculations of reserves in the current year. These increases were partially offset by $225 million of higher premiums and reduced benefits in the current year related to in-force rate actions approved and implemented.

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***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 September 30, 2016 | Three months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|---|---|---|---|
| **Term and whole life insurance** | | | | | | | | |
| Net earned premiums | $ 115 | $ 162 | $ (47) | (29)% | $ 50 | $ 510 | $ (460) | (90)% |
| Sales | | 7 | (7) | (100)% | 7 | 25 | (18) | (72)% |
| **Term universal life insurance** | | | | | | | | |
| Net deposits | $ 62 | $ 64 | $ (2) | (3)% | $ 191 | $ 198 | $ (7) | (4)% |
| **Universal life insurance** | | | | | | | | |
| Net deposits | $ 86 | $ 116 | $ (30) | (26)% | $ 297 | $ 378 | $ (81) | (21)% |
| Sales: | | | | | | | | |
| Universal life insurance | 1 | 2 | (1) | (50)% | 4 | 10 | (6) | (60)% |
| Linked-benefits | | 3 | (3) | (100)% | 3 | 9 | (6) | (67)% |
| **Total life insurance** | | | | | | | | |
| Net earned premiums and deposits | $ 263 | $ 342 | $ (79) | (23)% | $ 538 | $ 1,086 | $ (548) | (50)% |
| Sales: | | | | | | | | |
| Term life insurance | | 7 | (7) | (100)% | 7 | 25 | (18) | (72)% |
| Universal life insurance | 1 | 2 | (1) | (50)% | 4 | 10 | (6) | (60)% |
| Linked-benefits | | 3 | (3) | (100)% | 3 | 9 | (6) | (67)% |

| (Amounts in millions) | As of September 30, 2016 | As of September 30, 2015 | Percentage change 2016 vs. 2015 |
|---|---|---|---|
| **Term and whole life insurance** | | | |
| Life insurance in-force, net of reinsurance | $ 204,549 | $ 313,675 | (35)% |
| Life insurance in-force before reinsurance | 494,642 | 514,306 | (4)% |
| **Term universal life insurance** | | | |
| Life insurance in-force, net of reinsurance | $ 123,770 | $ 125,820 | (2)% |
| Life insurance in-force before reinsurance | 124,670 | 126,758 | (2)% |
| **Universal life insurance** | | | |
| Life insurance in-force, net of reinsurance | $ 40,237 | $ 40,591 | (1)% |
| Life insurance in-force before reinsurance | 46,038 | 46,883 | (2)% |
| **Total life insurance** | | | |
| Life insurance in-force, net of reinsurance | $ 368,556 | $ 480,086 | (23)% |
| Life insurance in-force before reinsurance | 665,350 | 687,947 | (3)% |

*Term and whole life insurance*

Net earned premiums and our life insurance in-force, net of reinsurance, decreased primarily related to higher ceded reinsurance and lower sales in the current year. In the first quarter of 2016, we initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction. Sales of our term life insurance product decreased predominantly related to certain distributor suspensions driven by rating agency actions and from our decision to suspend sales of our traditional life insurance products on March 7, 2016.

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*Term universal life insurance*

We no longer solicit sales of term universal life insurance products; however, we continue to service our existing block of business.

*Universal life insurance*

Net deposits decreased primarily related to changes in our competitive positioning in the marketplace, distributor suspensions following adverse rating actions and our decision to suspend sales of our traditional life insurance products on March 7, 2016.

***Fixed annuities***

The following table sets forth selected operating performance measures regarding our fixed annuities as of or for the dates indicated:

| (Amounts in millions) | As of or for the three months ended September 30, 2016 | 2015 | As of or for the nine months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| **Single Premium Deferred Annuities** | | | | |
| Account value, beginning of period | $ 12,191 | $ 12,418 | $ 12,480 | $ 12,437 |
| Deposits | 3 | 253 | 175 | 777 |
| Surrenders, benefits and product charges | (270) | (333) | (879) | (1,042) |
| Net flows | (267) | (80) | (704) | (265) |
| Interest credited and investment performance | 86 | 42 | 234 | 208 |
| Account value, end of period | $ 12,010 | $ 12,380 | $ 12,010 | $ 12,380 |
| **Single Premium Immediate Annuities** | | | | |
| Account value, beginning of period | $ 5,198 | $ 5,442 | $ 5,180 | $ 5,763 |
| Premiums and deposits | 25 | 36 | 75 | 112 |
| Surrenders, benefits and product charges | (173) | (186) | (572) | (595) |
| Net flows | (148) | (150) | (497) | (483) |
| Interest credited | 56 | 61 | 173 | 188 |
| Effect of accumulated net unrealized investment gains (losses) | 23 | (8) | 273 | (123) |
| Account value, end of period | $ 5,129 | $ 5,345 | $ 5,129 | $ 5,345 |
| **Structured Settlements** | | | | |
| Account value, net of reinsurance, beginning of period | $ 1,061 | $ 1,074 | $ 1,066 | $ 1,078 |
| Surrenders, benefits and product charges | (11) | (19) | (44) | (52) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net flows | | (11) | | (19) | | (44) | | (52) |
| Interest credited | | 14 | | 14 | | 42 | | 43 |
| Account value, net of reinsurance, end of period | $ | 1,064 | $ | 1,069 | $ | 1,064 | $ | 1,069 |
| Total premiums from fixed annuities | $ | | $ | 4 | $ | 3 | $ | 17 |
| Total deposits from fixed annuities | $ | 28 | $ | 285 | $ | 247 | $ | 872 |

*Single Premium Deferred Annuities*

Account value of our single premium deferred annuities decreased as surrenders and benefits outpaced deposits and interest credited. Sales decreased primarily related to suspension of our products by distributors driven by the rating actions and from our decision to suspend sales of our traditional fixed annuity products on March 7, 2016.

*Single Premium Immediate Annuities*

Account value of our single premium immediate annuities decreased as benefits exceeded net unrealized investment gains, interest credited and premiums. For the nine months ended September 30, 2016, we also had $24 million of higher reserves related to loss recognition testing driven primarily by the low interest rate environment in the current year (see Critical Accounting Estimates for additional information). Sales declined primarily related to suspension of our products by distributors driven by the rating actions and from our decision to suspend sales of our traditional fixed annuity products on March 7, 2016.

*Structured Settlements*

We no longer solicit sales of structured settlements; however, we continue to service our existing block of business.

***Valuation systems and processes***

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. For example, we are migrating to a new modeling system and we expect to implement it for the majority of our long-term care insurance business in the fourth quarter of 2016. We anticipate migrating the remaining portion of our long-term care insurance business to this new modeling system in 2017 or later. 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 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, valuation processes and methodologies will be reviewed, and may result in additional refinements to assumptions. Any material changes in balances, margins or income trends that may result from these activities will be disclosed accordingly.

**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.

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***Segment results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

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

| (Amounts in millions) | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Net investment income | $ 37 | $ 32 | $ 5 | 16% |
| Net investment gains (losses) | 4 | (25) | 29 | 116% |
| Policy fees and other income | 43 | 46 | (3) | (7)% |
| Total revenues | 84 | 53 | 31 | 58% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 2 | 18 | (16) | (89)% |
| Interest credited | 33 | 31 | 2 | 6% |
| Acquisition and operating expenses, net of deferrals | 20 | 17 | 3 | 18% |
| Amortization of deferred acquisition costs and intangibles | 7 | 17 | (10) | (59)% |
| Interest expense | 1 | | 1 | NM[(1)] |
| Total benefits and expenses | 63 | 83 | (20) | (24)% |
| Income (loss) from continuing operations before income taxes | 21 | (30) | 51 | 170% |
| Provision (benefit) for income taxes | 6 | (12) | 18 | 150% |
| Income (loss) from continuing operations | 15 | (18) | 33 | 183% |
| Adjustments to income (loss) from continuing operations: | | | | |
| Net investment (gains) losses, net [(2)] | (4) | 21 | (25) | (119)% |
| Taxes on adjustments | 1 | (7) | 8 | 114% |
| Net operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ 12 | $ (4) | $ 16 | NM[(1)] |

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

(2) For the three months ended 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(4) million.

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

We had net operating income available to Genworth Financial, Inc. s common stockholders in the current year compared to a net operating loss available to Genworth Financial, Inc. s common stockholders in the prior year. The change was primarily driven by favorable equity market performance 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 gains increased largely related to net gains in the current year on changes in embedded derivatives associated with our variable annuity products with guaranteed minimum withdrawal benefits ( GMWBs ) and the change in related hedge positions compared to net losses in the prior year.

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***Benefits and expenses***

Benefits and other changes in policy reserves decreased primarily attributable to a decrease in GMDB reserves in our variable annuity products due to favorable equity market performance in the current year and unfavorable mortality in our corporate-owned life insurance products in the prior year.

Amortization of deferred acquisition costs and intangibles decreased related to our variable annuity products principally from favorable equity market performance in the current year.

*Provision (benefit) for income taxes*. The effective tax rate decreased to 29.1% for the three months ended September 30, 2016 from 39.4% for the three months ended September 30, 2015. The decrease in the effective tax rate is primarily attributable to changes in tax favored investment benefits in relation to pre-tax results in the current year compared to the prior year.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

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

| **(Amounts in millions)** | **Nine months ended September 30, 2016** | **2015** | **Increase (decrease) and percentage change 2016 vs. 2015** | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ | $ 1 | $ (1) | (100)% |
| Net investment income | 108 | 103 | 5 | 5% |
| Net investment gains (losses) | (17) | (39) | 22 | 56% |
| Policy fees and other income | 127 | 144 | (17) | (12)% |
| Total revenues | 218 | 209 | 9 | 4% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 26 | 36 | (10) | (28)% |
| Interest credited | 96 | 92 | 4 | 4% |
| Acquisition and operating expenses, net of deferrals | 54 | 57 | (3) | (5)% |
| Amortization of deferred acquisition costs and intangibles | 25 | 32 | (7) | (22)% |
| Interest expense | 1 | 1 | | % |
| Total benefits and expenses | 202 | 218 | (16) | (7)% |
| Income (loss) from continuing operations before income taxes | 16 | (9) | 25 | NM[(1)] |
| Provision (benefit) for income taxes | 2 | (7) | 9 | 129% |
| Income (loss) from continuing operations | 14 | (2) | 16 | NM[(1)] |
| Adjustments to income (loss) from continuing operations: | | | | |

| | | | | |
|---|---|---|---|---|
| Net investment (gains) losses, net [2] | 12 | 27 | (15) | (56)% |
| Taxes on adjustments | (4) | (9) | 5 | 56% |
| Net operating income available to Genworth Financial, Inc. s common stockholders | $ 22 | $ 16 | $ 6 | 38% |

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

(2) For the nine months ended September 30, 2016 and 2015, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(5) million and $(12) million, respectively.

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

Net operating income available to Genworth Financial, Inc. s common stockholders increased primarily driven by favorable equity market performance, partially offset by lower account values in our variable annuity products in the current year.

***Revenues***

Net investment income increased driven by higher policy loan income in our corporate-owned life insurance products and higher average invested assets, partially offset by $6 million of gains from limited partnerships in the prior year.

Net investment losses decreased primarily related to lower net losses on changes in embedded derivatives associated with our variable annuity products with GMWBs and the change in related hedge positions, partially offset by impairments in the current year.

Policy fees and other income decreased mainly attributable to lower account values in our variable annuity products in the current year.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased primarily attributable to decrease in GMDB reserves in our variable annuity products due to favorable equity market performance in the current year and unfavorable mortality in our corporate-owned life insurance products in the prior year.

Interest credited increased largely related to higher cash values in our corporate-owned life insurance products in the current year.

Amortization of deferred acquisition costs and intangibles decreased related to our variable annuity products principally from favorable equity market performance and lower account values, partially offset by lower net investment losses in the current year.

*Provision (benefit) for income taxes*. The effective tax rate decreased to 12.1% for the nine months ended September 30, 2016 from 76.3% for the nine months ended September 30, 2015. The decrease in the effective tax rate was primarily attributable to tax favored investments in relation to small pre-tax results in the current year compared to the prior year.

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***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 three months ended September 30, 2016 | 2015 | As of or for the nine months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| **Variable Annuities Income Distribution Series**[1] | | | | |
| Account value, beginning of period | $ 4,849 | $ 5,341 | $ 4,942 | $ 5,666 |
| Deposits | 6 | 7 | 17 | 26 |
| Surrenders, benefits and product charges | (151) | (158) | (431) | (542) |
| Net flows | (145) | (151) | (414) | (516) |
| Interest credited and investment performance | 90 | (192) | 266 | (152) |
| Account value, end of period | $ 4,794 | $ 4,998 | $ 4,794 | $ 4,998 |
| **Traditional Variable Annuities** | | | | |
| Account value, net of reinsurance, beginning of period | $ 1,177 | $ 1,371 | $ 1,241 | $ 1,455 |
| Deposits | 2 | 1 | 6 | 8 |
| Surrenders, benefits and product charges | (47) | (60) | (154) | (201) |
| Net flows | (45) | (59) | (148) | (193) |
| Interest credited and investment performance | 49 | (65) | 88 | (15) |
| Account value, net of reinsurance, end of period | $ 1,181 | $ 1,247 | $ 1,181 | $ 1,247 |
| **Variable Life Insurance** | | | | |
| Account value, beginning of period | $ 283 | $ 309 | $ 291 | $ 313 |
| Deposits | 1 | 2 | 5 | 6 |
| Surrenders, benefits and product charges | (7) | (7) | (24) | (29) |
| Net flows | (6) | (5) | (19) | (23) |
| Interest credited and investment performance | 8 | (18) | 13 | (4) |
| Account value, end of period | $ 285 | $ 286 | $ 285 | $ 286 |

(1) The Income Distribution Series products are comprised of our deferred and immediate variable annuity products, including those variable annuity products with rider options that provide guaranteed income benefits, including GMWBs and certain types of guaranteed annuitization benefits. These products do not include fixed single

premium immediate annuities or deferred annuities, which may also serve income distribution needs.

*Variable Annuities  Income Distribution Series*

Account value related to our Income Distribution Series products decreased compared to June 30, 2016 and December 31, 2015 primarily related to surrenders outpacing favorable equity market performance. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Traditional Variable Annuities*

In our traditional variable annuities, the increase in account values compared to June 30, 2016 was primarily the result of favorable equity market performance outpacing surrenders. The decrease in account value compared to December 31, 2015 was primarily the result of surrenders outpacing favorable equity market performance. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Variable Life Insurance*

We no longer solicit sales of variable life insurance; however, we continue to service our existing block of business.

***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 three months ended September 30, 2016 | 2015 | As of or for the nine months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| **GICs, FABNs and Funding Agreements** | | | | |
| Account value, beginning of period | $ 561 | $ 491 | $ 410 | $ 493 |
| Deposits | | | 150 | |
| Surrenders and benefits | (2) | (81) | (4) | (85) |
| Net flows | (2) | (81) | 146 | (85) |
| Interest credited | 2 | 1 | 5 | 3 |
| Account value, end of period | $ 561 | $ 411 | $ 561 | $ 411 |

Account value related to our institutional products remained unchanged compared to June 30, 2016. Account value related to our institutional products increased compared to December 31, 2015 was mainly attributable to higher deposits as a result of issuing funding agreements for asset-liability management and yield enhancement in the current year.

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## Corporate and Other Activities

***Results of operations***

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

| (Amounts in millions) | Three months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 2 | $ 7 | $ (5) | (71)% |
| Net investment income | 1 | (1) | 2 | 200% |
| Net investment gains (losses) | (9) | 9 | (18) | (200)% |
| Policy fees and other income | (1) | | (1) | NM[1] |
| Total revenues | (7) | 15 | (22) | (147)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 1 | 3 | (2) | (67)% |
| Acquisition and operating expenses, net of deferrals | 11 | 40 | (29) | (73)% |
| Amortization of deferred acquisition costs and intangibles | 1 | | 1 | NM[1] |
| Interest expense | 67 | 75 | (8) | (11)% |
| Total benefits and expenses | 80 | 118 | (38) | (32)% |
| Loss from continuing operations before income taxes | (87) | (103) | 16 | 16% |
| Provision (benefit) for income taxes | 246 | (33) | 279 | NM[1] |
| Loss from continuing operations | (333) | (70) | (263) | NM[1] |
| Adjustments to loss from continuing operations: | | | | |
| Net investment (gains) losses | 9 | (9) | 18 | 200% |
| Expenses related to restructuring | | 1 | (1) | (100)% |
| Taxes on adjustments | (3) | 10 | (13) | (130)% |
| Net operating loss available to Genworth Financial, Inc. s common stockholders | $ (327) | $ (68) | $ (259) | NM[1] |

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

***Net operating loss available to Genworth Financial, Inc. s common stockholders***

The net operating loss available to Genworth Financial, Inc.  s common stockholders increased primarily as a result of tax charges of $265 million, partially offset by lower operating expenses and interest expense in the current year.

***Revenues***

Premiums decreased largely related to the sale of our European mortgage insurance business in May 2016.

Net investment losses in the current year were primarily related to derivative losses and net realized losses from the sale of investment securities. Net investment gains in the prior year resulted from derivative gains and net realized gains from the sale of investment securities, partially offset by impairments.

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***Benefits and expenses***

Acquisition and operating expenses, net of deferrals, decreased mainly driven by lower legal accruals and expenses of $20 million and lower net expenses after allocations to our operating segments in the current year.

Interest expense decreased largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

The income tax provision in the current year was largely attributable to a valuation allowance of $265 million recorded on deferred tax assets in the current year. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

| (Amounts in millions) | Nine months ended September 30, 2016 | 2015 | Increase (decrease) and percentage change 2016 vs. 2015 | |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums | $ 11 | $ 19 | $ (8) | (42)% |
| Net investment income | 4 | (6) | $ 10 | 167% |
| Net investment gains (losses) | (88) | 23 | (111) | NM[(1)] |
| Policy fees and other income | 76 | (10) | 86 | NM[(1)] |
| Total revenues | 3 | 26 | (23) | (88)% |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 4 | 11 | (7) | (64)% |
| Acquisition and operating expenses, net of deferrals | 173 | 76 | 97 | 128% |
| Amortization of deferred acquisition costs and intangibles | 1 | 1 | | % |
| Interest expense | 205 | 224 | (19) | (8)% |
| Total benefits and expenses | 383 | 312 | 71 | 23% |
| Loss from continuing operations before income taxes | (380) | (286) | (94) | (33)% |
| Provision (benefit) for income taxes | 119 | (102) | 221 | NM[(1)] |
| Loss from continuing operations | (499) | (184) | (315) | (171)% |

| | | | | |
|---|---|---|---|---|
| Adjustments to loss from continuing operations: | | | | |
| Net investment (gains) losses | 88 | (23) | 111 | NM[1] |
| (Gains) losses on sale of businesses | (2) | | (2) | NM[1] |
| (Gains) losses on early extinguishment of debt | (48) | 1 | (49) | NM[1] |
| Expenses related to restructuring | 2 | 1 | 1 | 100% |
| Fees associated with bond consent solicitation | 18 | | 18 | NM[1] |
| Taxes on adjustments | (43) | 15 | (58) | NM[1] |
| Net operating loss available to Genworth Financial, Inc. s common stockholders | $ (484) | $ (190) | $ (294) | (155)% |

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

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***Net operating loss available to Genworth Financial, Inc. s common stockholders***

The net operating loss available to Genworth Financial, Inc. s common stockholders increased mainly as a result of tax charges of $265 million and additional legal fees and expenses of $54 million, partially offset by lower interest expense in the current year.

***Revenues***

Premiums decreased largely related to the sale of our European mortgage insurance business in May 2016.

Net investment income increased related to the elimination of affiliate preferred stock dividends of approximately $8 million in the prior year that did not recur.

Net investment losses in the current year were primarily related to a $64 million loss from the write-off of our residual interest in certain policy loan securitization entities. Net investment losses in the current year were also driven by derivative losses and impairments, partially offset by net realized gains from the sale of investment securities. Net investment gains in the prior year resulted from derivative gains and net realized losses from the sale of investment securities, partially offset by impairments.

Policy fees and other income in the current year included a gain of $64 million from the early extinguishment of debt related to the redemption of a securitization entity and a gain of $11 million attributable to the sale of assets to Pac Life. Policy fees and other income in the prior year included losses from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased largely related to the sale of our European mortgage insurance business in May 2016.

Acquisition and operating expenses, net of deferrals, increased mainly driven by $69 million for the settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $10 million of legal fees and expenses related to this litigation in the current year. In addition, we paid a make-whole expense of $20 million on the early redemption of Genworth Holdings 2016 senior notes in January 2016 and paid broker, advisor and investment banking fees of $18 million associated with Genworth Holdings bond consent solicitation in March 2016. The increase in the current year was also attributable to an additional loss of $9 million recorded related to the sale of our mortgage insurance business in Europe. These increases were partially offset by lower net expenses after allocations to our operating segments in the current year.

Interest expense decreased largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

The income tax provision in the current year was largely attributable to a valuation allowance of $265 million recorded on deferred tax assets in the current year. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the announced transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership. This increase was partially offset by a tax benefit in the current year related to the reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe.

### Investments and Derivative Instruments

***Trends and conditions***

*Investments credit and investment markets*

U.S. Treasury yields rose modestly at the end of the third quarter of 2016 but remain significantly lower in 2016 as the Federal Reserve and other global central banks maintain stimulative monetary policies. The European Central Bank and Bank of England added local corporate bonds to their quantitative easing programs, increasing demand for U.S. markets. The U.S. economy continues to grow at a moderate pace and while the labor market has tightened, inflation remains muted. The U.S. Federal Reserve held policy rates steady during the third quarter of 2016. Yield levels on U.S. investment grade credit neared record lows in July 2016. Credit spreads in the energy and metals sectors tightened as commodity prices stabilized at higher levels.

As of September 30, 2016, our fixed maturities securities portfolio, which was 96% investment grade, comprised 81% 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, 2016. 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 to our derivatives portfolio arising from our counterparties right to terminate their bilateral over-the-counter ( OTC ) derivatives transactions with us following the downgrades of our life insurance subsidiaries in September and October 2016. We notified our counterparties of the downgrades to determine whether they would exercise their rights to terminate the transactions, agree to maintain the transactions with us under revised terms or permit us to move the transactions to clearing through the Chicago Mercantile Exchange ( CME ). Although some counterparties have indicated that they reserve their rights to take action against us, none have and we continue to discuss the downgrades with them.

As of September 30, 2016, $14.4 billion notional of our derivatives portfolio was cleared through the 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, 2016, we posted initial margin of $386 million to our clearing agents, which represented approximately $94 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 that are not specifically dependent on ratings. As of September 30, 2016, $5.9 billion notional of our derivatives portfolio was in bilateral OTC derivatives transactions pursuant to which we have posted aggregate independent amounts of $223 million and are holding collateral from counterparties in the amount of $203 million. We have notional of $3.7 million in bilateral OTC derivatives where the counterparty has the right to terminate its transactions with us based on our current ratings. Given our current ratings, our ability to enter into new derivatives transactions will be more limited.

During the second quarter of 2016, we restruck our forward starting swap portfolio by terminating and settling then existing positions and entering into new forward starting swaps at current interest rates. These transactions had no direct impact on our consolidated results or financial position. Because the forward starting swap portfolio was at a significant gain, upon termination, we received cash which was invested to generate additional income. Reestablishing the forward starting swaps is intended to help protect us against further declines in interest rates. Derivatives qualifying as hedges includes amounts related to both previously terminated and active hedge positions in our long-term care insurance business and will be amortized into net investment income over time as we invest future premiums.

During the second quarter of 2016, a counterparty to our inflation index swaps indicated it would exercise its right to terminate its derivative positions with us. As a result, we discontinued hedge accounting for the

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inflation index swaps used to hedge inflation risk in the TIPS we purchased in 2009 and 2010. We decided to sell the TIPS concurrent with the hedge termination which eliminated the possibility that the remaining forecasted transactions would occur. These extenuating circumstances were beyond our control and we do not believe this impacts our ability to forecast transactions related to other cash flow hedge programs.

***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:

| (Amounts in millions) | Three months ended September 30, 2016 Yield | 2016 Amount | 2015 Yield | 2015 Amount | Increase (decrease) 2016 vs. 2015 Yield | Increase (decrease) 2016 vs. 2015 Amount |
|---|---|---|---|---|---|---|
| Fixed maturity securities taxable | 4.6% | $ 655 | 4.6% | $ 647 | % | $ 8 |
| Fixed maturity securities non-taxable | 3.7% | 3 | 3.5% | 3 | 0.2% | |
| Commercial mortgage loans | 5.2% | 79 | 5.5% | 84 | (0.3)% | (5) |
| Restricted commercial mortgage loans related to securitization entities | 7.4% | 3 | 6.4% | 3 | 1.0% | |
| Equity securities | 5.8% | 8 | 4.0% | 3 | 1.8% | 5 |
| Other invested assets | 24.7% | 34 | 17.3% | 26 | 7.4% | 8 |
| Restricted other invested assets related to securitization entities | % | | 1.0% | 1 | (1.0)% | (1) |
| Policy loans | 8.7% | 38 | 8.4% | 33 | 0.3% | 5 |
| Cash, cash equivalents and short-term investments | 0.6% | 5 | 0.3% | 3 | 0.3% | 2 |
| Gross investment income before expenses and fees | 4.7% | 825 | 4.6% | 803 | 0.1% | 22 |
| Expenses and fees | (0.1)% | (20) | (0.1)% | (20) | % | |
| Net investment income | 4.6% | $ 805 | 4.5% | $ 783 | 0.1% | $ 22 |
| Average invested assets and cash | | $ 69,825 | | $ 69,944 | | $ (119) |

| (Amounts in millions) | Nine months ended September 30, 2016 Yield | 2016 Amount | 2015 Yield | 2015 Amount | Increase (decrease) 2016 vs. 2015 Yield | Increase (decrease) 2016 vs. 2015 Amount |
|---|---|---|---|---|---|---|
| Fixed maturity securities taxable | 4.6% | $ 1,930 | 4.6% | $ 1,924 | % | $ 6 |
| Fixed maturity securities non-taxable | 3.6% | 9 | 3.5% | 9 | 0.1% | |
| Commercial mortgage loans | 5.2% | 237 | 5.5% | 252 | (0.3)% | (15) |
| Restricted commercial mortgage loans related to securitization entities | 7.2% | 8 | 7.2% | 10 | % | (2) |
| Equity securities | 5.7% | 20 | 5.2% | 11 | 0.5% | 9 |
| Other invested assets | 24.0% | 105 | 26.1% | 103 | (2.1)% | 2 |
| Restricted other invested assets related to securitization entities | 1.1% | 3 | 1.0% | 3 | 0.1% | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Policy loans | 8.6% | 107 | 8.7% | 101 | (0.1)% | 6 |
| Cash, cash equivalents and short-term investments | 0.5% | 16 | 0.3% | 10 | 0.2% | 6 |
| Gross investment income before expenses and fees | 4.6% | 2,435 | 4.6% | 2,423 | % | 12 |
| Expenses and fees | (0.1)% | (62) | (0.1)% | (66) | % | 4 |
| Net investment income | 4.5% | $ 2,373 | 4.5% | $ 2,357 | % | $ 16 |
| Average invested assets and cash | | $ 69,837 | | $ 69,844 | | $ (7) |

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Yields are based on net investment income as reported under U.S. GAAP and are consistent with how the company measures its 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 and equity 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, 2016, annualized weighted-average investment yields increased primarily attributable to higher reinvestment yields on lower average invested assets. Net investment income included $10 million of higher favorable prepayment speed adjustments on structured securities, $5 million of higher income related to inflation-driven volatility on recent TIPS purchases and $2 million of higher gains related to bond calls and mortgage prepayments as compared to the prior year.

For the nine months ended September 30, 2016, annualized weighted-average investment yields remained unchanged from the prior year as lower reinvestment yields and variable income were offset by higher average invested assets in our long-term care insurance business. Net investment income included $20 million of lower gains related to limited partnerships and $13 million of lower gains related to bond calls and mortgage prepayments, partially offset by $19 million of higher favorable prepayment speed adjustments on structured securities and $8 million of higher income related to inflation-driven volatility on recent TIPS purchases as compared to the prior year. The nine months ended September 30, 2016 included a decrease of $11 million attributable to changes in foreign exchange rates.

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

| (Amounts in millions) | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Available-for-sale securities: | | | | |
| Realized gains | $ 39 | $ 14 | $ 205 | $ 49 |
| Realized losses | (24) | (18) | (75) | (36) |
| Net realized gains (losses) on available-for-sale securities | 15 | (4) | 130 | 13 |
| Impairments: | | | | |
| Total other-than-temporary impairments | (2) | (10) | (35) | (13) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | | 1 |
| Net other-than-temporary impairments | (2) | (9) | (35) | (12) |
| Trading securities | (4) | 12 | 40 | 2 |
| Commercial mortgage loans | (1) | 1 | 1 | 5 |
| Net gains (losses) related to securitization entities | 2 | (1) | (51) | 9 |
| Derivative instruments | 10 | (53) | (52) | (79) |
| Contingent consideration adjustment | | 2 | (2) | 2 |
| Other | | 1 | | 1 |

| | | | | |
|---|---|---|---|---|
| Net investment gains (losses) | $ 20 | $ (51) | $ 31 | $ (59) |

***Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015***

We recorded $7 million of lower net other-than-temporary impairments during the three months ended September 30, 2016. Impairments of $2 million recorded during the three months ended September 30, 2016 related to equity securities. Of total impairments recorded during the three months ended September 30 2015, $6 million related to corporate securities, $2 million related to structured securities and $1 million related to commercial mortgage loans.

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Net investment gains related to derivatives of $10 million during the three months ended September 30, 2016 were primarily associated with hedging programs for our runoff variable annuity products and gains related to hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to a decrease in long-term interest rates. These gains were partially offset by losses in derivatives used to hedge foreign currency risk associated with assets held and expected dividend payments from certain foreign subsidiaries.

Net investment losses related to derivatives of $53 million during the three months ended September 30, 2015 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 derivatives used to hedge foreign currency risk associated with assets held and losses related to a non-qualified derivative strategy to mitigate interest rate risk associated with our statutory capital position. These losses were partially offset by gains related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries.

We recorded $15 million of net gains related to the sale of available-for-sale securities during the three months ended September 30, 2016 compared to $4 million of net losses during the three months ended September 30, 2015. We also recorded $4 million of losses related to trading securities during the three months ended September 30, 2016 compared to $12 million of gains during the three months ended September 30, 2015 due to unrealized losses resulting from changes in the long-term interest rate environment in the current year.

***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

We recorded $23 million of higher net other-than-temporary impairments during the nine months ended September 30, 2016. Of total impairments recorded during the nine months ended September 30, 2016 and 2015, we recorded impairments of $24 million and $6 million, respectively, related to corporate securities and $4 million in each period related to commercial mortgage loans. During the nine months ended September 30, 2016, impairments included $3 million related to limited partnerships and $2 million related to equity securities. Impairments during the nine months ended September 30, 2016 and September 30, 2015 also included $1 million and $2 million, respectively, related to structured securities.

Net investment losses related to derivatives of $52 million during the nine months ended September 30, 2016 were primarily associated with hedging programs for our runoff variable annuity products. We also had losses associated with hedging programs for our fixed indexed annuity products. These losses were partially offset by gains related to hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business.

Net investment losses related to derivatives of $79 million during the nine months ended September 30, 2015 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 derivatives used to hedge foreign currency risk associated with assets held and losses related to fixed indexed annuity derivatives. These losses were partially offset by gains related to derivatives to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries.

We recorded $117 million of higher net gains related to the sale of available-for-sale securities during the nine months ended September 30, 2016 primarily related to $130 million of gains from the sale of TIPS in the current year. We also recorded $38 million of higher gains related to trading securities during the nine months ended September 30, 2016 resulting from changes in the long-term interest rate environment. We recorded $51 million of losses related to securitization entities during the nine months ended September 30, 2016 primarily related to a $64 million loss from the write-off of our residual interest in certain policy loan securitization entities in the current year compared to $9 million of gains during the nine months ended September 30, 2015.

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*Investment portfolio*

The following table sets forth our cash, cash equivalents and invested assets as of the dates indicated:

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (Amounts in millions) | Carrying value | % of total | Carrying value | % of total |
| Fixed maturity securities, available-for-sale: | | | | |
| Public | $ 47,755 | 61% | $ 43,136 | 58% |
| Private | 16,025 | 20 | 15,061 | 20 |
| Commercial mortgage loans | 6,017 | 8 | 6,170 | 8 |
| Other invested assets | 2,676 | 4 | 2,309 | 3 |
| Policy loans | 1,751 | 2 | 1,568 | 2 |
| Restricted other invested assets related to securitization entities | 312 | | 413 | 1 |
| Equity securities, available-for-sale | 590 | 1 | 310 | |
| Restricted commercial mortgage loans related to securitization entities | 134 | | 161 | |
| Cash and cash equivalents | 3,078 | 4 | 5,965 | 8 |
| Total cash, cash equivalents and invested assets | $ 78,338 | 100% | $ 75,093 | 100% |

For a discussion of the change in cash, cash equivalents 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, equity and trading 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, 2016, approximately 7% of our investment holdings recorded at fair value was 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.

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*Fixed maturity and equity securities*

As of September 30, 2016, 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:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Amortized cost or cost** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Fair value** |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5,416 | $ 1,288 | $ | $ (1) | $ | $ 6,703 |
| State and political subdivisions | 2,491 | 350 | | (17) | | 2,824 |
| Non-U.S. government (1) | 2,052 | 175 | | | | 2,227 |
| U.S. corporate: | | | | | | |
| Utilities | 4,073 | 678 | | (2) | | 4,749 |
| Energy | 2,124 | 177 | | (22) | | 2,279 |
| Finance and insurance | 5,711 | 615 | 23 | (9) | | 6,340 |
| Consumer non-cyclical | 4,190 | 689 | | (1) | | 4,878 |
| Technology and communications | 2,486 | 248 | | (8) | | 2,726 |
| Industrial | 1,181 | 114 | | (4) | | 1,291 |
| Capital goods | 1,876 | 319 | | | | 2,195 |
| Consumer cyclical | 1,506 | 158 | | (4) | | 1,660 |
| Transportation | 1,077 | 138 | | | | 1,215 |
| Other | 335 | 27 | | | | 362 |
| Total U.S. corporate (1) | 24,559 | 3,163 | 23 | (50) | | 27,695 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 899 | 64 | | (2) | | 961 |
| Energy | 1,281 | 129 | | (15) | | 1,395 |
| Finance and insurance | 2,458 | 201 | | (1) | | 2,658 |
| Consumer non-cyclical | 768 | 55 | | (1) | | 822 |
| Technology and communications | 968 | 80 | | (1) | | 1,047 |
| Industrial | 955 | 68 | | (5) | | 1,018 |
| Capital goods | 545 | 36 | | (1) | | 580 |
| Consumer cyclical | 490 | 15 | | | | 505 |
| Transportation | 605 | 81 | | (3) | | 683 |
| Other | 3,039 | 305 | | (5) | | 3,339 |
| Total non-U.S. corporate (1) | 12,008 | 1,034 | | (34) | | 13,008 |
| Residential mortgage-backed (2) | 4,418 | 396 | 11 | (2) | | 4,823 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial mortgage-backed | 2,983 | 192 | 2 | (4) | | 3,173 |
| Other asset-backed [2] | 3,324 | 28 | 1 | (26) | | 3,327 |
| Total fixed maturity securities | 57,251 | 6,626 | 37 | (134) | | 63,780 |
| Equity securities | 599 | 26 | | (35) | | 590 |
| Total available-for-sale securities | $ 57,850 | $ 6,652 | $ 37 | $ (169) | $ | $ 64,370 |

(1) Fair value included European periphery exposure of $465 million in Ireland, $252 million in Spain, $98 million in Italy and $16 million in Portugal.

(2) Fair value included $45 million collateralized by Alt-A residential mortgage loans and $27 million collateralized by sub-prime residential mortgage loans.

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As of December 31, 2015, 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:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Amortized cost or cost** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Fair value** |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5,487 | $ 732 | $ | $ (16) | $ | $ 6,203 |
| State and political subdivisions | 2,287 | 181 | | (30) | | 2,438 |
| Non-U.S. government [(1)] | 1,910 | 110 | | (5) | | 2,015 |
| U.S. corporate: | | | | | | |
| Utilities | 3,355 | 364 | | (26) | | 3,693 |
| Energy | 2,560 | 103 | | (162) | | 2,501 |
| Finance and insurance | 5,268 | 392 | 15 | (43) | | 5,632 |
| Consumer non-cyclical | 3,755 | 371 | | (30) | | 4,096 |
| Technology and communications | 2,108 | 123 | | (38) | | 2,193 |
| Industrial | 1,164 | 53 | | (44) | | 1,173 |
| Capital goods | 1,774 | 188 | | (12) | | 1,950 |
| Consumer cyclical | 1,602 | 95 | | (22) | | 1,675 |
| Transportation | 1,023 | 75 | | (12) | | 1,086 |
| Other | 385 | 22 | | (5) | | 402 |
| Total U.S. corporate [(1)] | 22,994 | 1,786 | 15 | (394) | | 24,401 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 815 | 37 | | (9) | | 843 |
| Energy | 1,700 | 64 | | (78) | | 1,686 |
| Finance and insurance | 2,327 | 152 | 2 | (8) | | 2,473 |
| Consumer non-cyclical | 746 | 24 | | (18) | | 752 |
| Technology and communications | 978 | 36 | | (26) | | 988 |
| Industrial | 1,063 | 19 | | (96) | | 986 |
| Capital goods | 602 | 19 | | (17) | | 604 |
| Consumer cyclical | 522 | 8 | | (4) | | 526 |
| Transportation | 559 | 52 | | (6) | | 605 |
| Other | 2,574 | 187 | | (25) | | 2,736 |
| Total non-U.S. corporate [(1)] | 11,886 | 598 | 2 | (287) | | 12,199 |
| Residential mortgage-backed [(2)] | 4,777 | 330 | 11 | (17) | | 5,101 |
| Commercial mortgage-backed | 2,492 | 84 | 3 | (20) | | 2,559 |
| Other asset-backed [(2)] | 3,328 | 11 | 1 | (59) | | 3,281 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total fixed maturity securities | 55,161 | 3,832 | 32 | (828) | | 58,197 |
| Equity securities | 325 | 8 | | (23) | | 310 |
| Total available-for-sale securities | $ 55,486 | $ 3,840 | $ 32 | $ (851) | $ | $ 58,507 |

(1) Fair value included European periphery exposure of $361 million in Ireland, $244 million in Spain, $103 million in Italy and $15 million in Portugal.

(2) Fair value included $69 million collateralized by Alt-A residential mortgage loans and $32 million collateralized by sub-prime residential mortgage loans.

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Fixed maturity securities increased $5.6 billion principally from higher net unrealized gains attributable to changes in interest rates and from purchases exceeding sales and maturities 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, 2016, our exposure to the peripheral European countries increased by $108 million to $831 million with unrealized gains of $73 million. Our exposure as of September 30, 2016 was diversified with direct exposure to local economies of $182 million, indirect exposure through debt issued by subsidiaries outside of the European periphery of $97 million and exposure to multinational companies where the majority of revenues come from outside of the country of domicile of $552 million.

*Commercial mortgage loans*

The following tables set forth additional information regarding our commercial mortgage loans as of the dates indicated:

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Total recorded investment** | **Number of loans** | **Loan-to-value** (1) | **Delinquent principal balance** | **Number of delinquent loans** |
| **Loan Year** | | | | | |
| 2004 and prior | $ 547 | 320 | 31% | $ | |
| 2005 | 491 | 139 | 45% | 10 | 2 |
| 2006 | 454 | 115 | 52% | 15 | 1 |
| 2007 | 490 | 135 | 55% | | |
| 2008 | 138 | 26 | 54% | | |
| 2009 | | | % | | |
| 2010 | 90 | 17 | 49% | | |
| 2011 | 220 | 48 | 48% | | |
| 2012 | 602 | 90 | 53% | | |
| 2013 | 787 | 136 | 54% | | |
| 2014 | 898 | 147 | 61% | | |
| 2015 | 938 | 143 | 66% | | |
| 2016 | 377 | 62 | 68% | | |
| Total | $ 6,032 | 1,378 | 55% | $ 25 | 3 |

(1) Represents weighted-average loan-to-value as of September 30, 2016.

| (Dollar amounts in millions) | December 31, 2015 Total recorded investment | Number of loans | Loan-to-value (1) | Delinquent principal balance | Number of delinquent loans |
|---|---|---|---|---|---|
| **Loan Year** | | | | | |
| 2004 and prior | $ 609 | 361 | 32% | $ | |
| 2005 | 542 | 146 | 49% | 5 | 1 |
| 2006 | 709 | 177 | 51% | 1 | 1 |
| 2007 | 540 | 146 | 59% | 6 | 1 |
| 2008 | 145 | 27 | 56% | | |
| 2009 | | | % | | |
| 2010 | 93 | 17 | 48% | | |
| 2011 | 226 | 48 | 49% | | |
| 2012 | 626 | 92 | 55% | | |
| 2013 | 822 | 138 | 58% | | |
| 2014 | 935 | 150 | 66% | | |
| 2015 | 940 | 142 | 67% | | |
| Total | $ 6,187 | 1,444 | 56% | $ 12 | 3 |

(1) Represents weighted-average loan-to-value as of December 31, 2015.

*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, 2016 Carrying value | September 30, 2016 % of total | December 31, 2015 Carrying value | December 31, 2015 % of total |
|---|---|---|---|---|
| Derivatives | $ 1,331 | 50% | $ 1,112 | 48% |
| Securities lending collateral | 417 | 15 | 347 | 15 |
| Trading securities | 384 | 14 | 447 | 19 |
| Short-term investments | 342 | 13 | 197 | 9 |
| Limited partnerships | 188 | 7 | 188 | 8 |
| Other investments | 14 | 1 | 18 | 1 |
| Total other invested assets | $ 2,676 | 100% | $ 2,309 | 100% |

Derivatives increased primarily attributable to changes in the long-term interest rate environment, partially offset by early terminations in the current year. Short-term investments increased principally from purchases exceeding sales and maturities in the current year. Securities lending collateral increased driven by market demand. Our investments in trading securities decreased from higher net sales.

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*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, 2015 | Additions | Maturities/ terminations | September 30, 2016 |
|---|---|---|---|---|---|
| **Derivatives designated as hedges** | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swaps | Notional | $ 11,214 | $ 9,414 | $ (9,587) | $ 11,041 |
| Inflation indexed swaps | Notional | 571 | 1 | (572) | |
| Foreign currency swaps | Notional | 35 | | | 35 |
| Total cash flow hedges | | 11,820 | 9,415 | (10,159) | 11,076 |
| Total derivatives designated as hedges | | 11,820 | 9,415 | (10,159) | 11,076 |
| **Derivatives not designated as hedges** | | | | | |
| Interest rate swaps | Notional | 4,932 | | (253) | 4,679 |
| Interest rate swaps related to securitization entities | Notional | 67 | | (67) | |
| Foreign currency swaps | Notional | 162 | 133 | (97) | 198 |
| Credit default swaps | Notional | 144 | | (5) | 139 |
| Credit default swaps related to securitization entities | Notional | 312 | | | 312 |
| Equity index options | Notional | 1,080 | 2,346 | (1,097) | 2,329 |
| Financial futures | Notional | 1,331 | 5,393 | (5,255) | 1,469 |
| Equity return swaps | Notional | 134 | 211 | (184) | 161 |
| Other foreign currency contracts | Notional | 1,656 | 1,551 | (535) | 2,672 |
| Total derivatives not designated as hedges | | 9,818 | 9,634 | (7,493) | 11,959 |
| Total derivatives | | $ 21,638 | $ 19,049 | $ (17,652) | $ 23,035 |

| (Number of policies) | Measurement | December 31, 2015 | Additions | Maturities/ terminations | September 30, 2016 |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| GMWB embedded derivatives | Policies | 36,146 | | (2,179) | 33,967 |
| Fixed index annuity embedded derivatives | Policies | 17,482 | 647 | (462) | 17,667 |
| Indexed universal life embedded derivatives | Policies | 982 | 167 | (48) | 1,101 |

The $1.4 billion increase in the notional value of derivatives was primarily attributable to a notional increase in our non-qualified equity options related to our hedging strategy associated with fixed index annuity insurance products.

The number of policies related to our GMWB embedded derivatives decreased as variable annuity products are no longer being offered. The number of policies related to our fixed index annuity and indexed universal life embedded derivatives increased as a result of product sales in the current year.

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**Consolidated Balance Sheets**

*Total assets*. Total assets increased $2,421 million from $106,431 million as of December 31, 2015 to $108,852 million as of September 30, 2016.

Cash, cash equivalents and invested assets increased $3,245 million primarily from an increase of $6,132 million in invested assets, partially offset by a decrease of $2,887 million in cash and cash equivalents. Our fixed maturity securities increased $5,583 million principally from higher net unrealized investment gains of $3,493 million attributable to changes in interest rates and from purchases exceeding sales and maturities in the current year. Other invested assets increased $367 million mainly from an increase in derivatives driven by the changes in the long-term interest rate environment in the current year. Cash and cash equivalents decreased primarily from the redemption of non-recourse funding obligations and long-term borrowings in the current year.

Deferred acquisition costs decreased $416 million primarily related to higher net unrealized investment gains in the current year.

Reinsurance recoverable increased $297 million mainly attributable to a new reinsurance agreement with Protective Life to coinsure certain of our term life insurance policies as part of a life block transaction completed in January 2016. As part of this transaction, we recorded a deferred gain of approximately $65 million in the current year.

Deferred tax asset decreased $155 million as a result of an increase in the liabilities related to net unrealized investment gains in the current year.

Separate account assets decreased $398 million principally driven by surrenders and benefits in the current year.

*Total liabilities*. Total liabilities increased $309 million from $91,794 million as of December 31, 2015 to $92,103 million as of September 30, 2016.

Future policy benefits increased $930 million primarily driven by an increase in our long-term care insurance business largely from the aging and growth of the in-force block in the current year.

Policyholder account balances decreased $342 million largely as a result of surrenders in our fixed annuities business, partially offset by an increase in our institutional products attributable to higher account values in the current year.

Liability for policy and contract claims increased $774 million mainly attributable to an increase of $905 million in our long-term care insurance business largely from our annual review of assumptions which increased claim reserves by $460 million. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates for additional information). The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in the current year. This increase was partially offset by a decrease of $191 million in our U.S. mortgage insurance business principally from a decline in new delinquencies and favorable aging on existing delinquencies in the current year.

Unearned premiums increased $156 million primarily from our mortgage insurance business in Canada largely attributable to growth of the business and unfavorable changes in foreign exchange rates as well as higher sales in our U.S. mortgage insurance business in the current year.

Other liabilities increased $276 million largely driven by higher derivatives and counterparty collateral as a result of changes in the long-term interest rate environment in the current year. This increase was partially offset by a decrease of $229 million related to our repurchase program mainly attributable to scheduled maturities in the current year.

Borrowings related to securitization entities decreased $101 million primarily attributable to the settlement of $70 million of restricted borrowings as well as scheduled principal payments the current year.

Non-recourse funding obligations decreased $1,610 million as a result of early redemptions of non-recourse funding obligations for River Lake and River Lake II related to a life block transaction completed in the current year.

Long-term borrowings decreased $376 million primarily attributable to the redemption of $298 million of Genworth Holdings 2016 senior notes in January 2016 and the repurchase of $28 million principal of Genworth Holdings senior notes with various maturity dates during the three months ended March 31, 2016. The decrease was also related to $40 million of bond consent fees paid as part of Genworth Holdings bond consent solicitation. Genworth Financial Mortgage Insurance Pty Limited redeemed $36 million of subordinated floating rate notes due in 2021. These decreases were partially offset by an increase of $24 million from changes in foreign exchange rates on debt in Canada and Australia.

Deferred tax liability increased $1,127 million primarily from an increase in net unrealized investment gains and a valuation allowance of $265 million recorded on deferred tax assets in the current year related to foreign tax credits that we no longer expect to realize.

Separate account liabilities decreased $398 million principally driven by surrenders and benefits in the current year.

*Total equity*. Total equity increased $2,112 million from $14,637 million as of December 31, 2015 to $16,749 million as of September 30, 2016.

We reported a net loss available to Genworth Financial, Inc. s common stockholders of $155 million during the nine months ended September 30, 2016.

Accumulated other comprehensive income (loss) increased $2,192 million predominantly attributable to higher net unrealized investment gains of $1,606 million and derivatives qualifying as hedges of $448 million related to changes in the long-term interest rate environment in the current year. Foreign currency translation also increased $138 million related to the weakening of the U.S. dollar 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:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Net cash from operating activities | $ 1,798 | $ 1,158 |

| | | |
|---|---|---|
| Net cash from investing activities | (2,050) | (2,163) |
| Net cash from financing activities | (2,699) | (19) |
| Net decrease in cash before foreign exchange effect | $ (2,951) | $ (1,024) |

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 dividends to our stockholders and other capital transactions.

We had higher cash inflows from operating activities during the current year mainly attributable to higher net cash collateral received from counterparties primarily as a result of the change in the derivative positions in the current year. This increase was partially offset by amounts paid related to a new reinsurance agreement in our life insurance business. We also paid amounts related to the settlement of *In re Genworth Financial, Inc. Securities Litigation* and fees associated with Genworth Holdings bond consent solicitation.

We had slightly lower cash outflows from investing activities during the current year primarily as the result of net proceeds from the sale of our European mortgage insurance business and the sale of assets to Pac Life as well as net repayments of commercial mortgage loans in the current year compared to net originations in the prior year. These inflows were mostly offset by the purchase of policy loans in the second quarter of 2016 from the policy loan securitization entities in which we previously held a residual interest.

We had higher cash outflows from financing activities during the current year primarily from the redemption of $1,620 million of non-recourse funding obligations. Genworth Holdings also repaid and repurchased $326 million of its senior notes in the current year. Cash outflows from financing activities were also as a result of withdrawals exceeding deposits of our investment contracts in the current year. The prior year included proceeds from the sale of additional shares of our Australian mortgage insurance business in May 2015.

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. See note 9 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for additional information related to our securities lending program.

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. See note 9 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for additional information related to our repurchase program.

*Genworth holding company*

Genworth Financial and Genworth Holdings each acts 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 and equity 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 reduce 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.

Genworth Holdings had $1,065 million and $1,124 million of cash and cash equivalents as of September 30, 2016 and December 31, 2015, respectively. Genworth Holdings also held U.S. government securities of $100 million and $250 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, Genworth Holdings had approximately $80 million of restricted assets.

During the nine months ended September 30, 2016, we received cash common stock dividends from our international subsidiaries of $250 million, of which $73 million was received in the third quarter of 2016. Dividends in 2016 included $76 million for our portion of the AUD$202 million capital reduction in Genworth Mortgage Insurance Australia Limited in the second quarter of 2016.

The life block transaction completed in January 2016 generated approximately $175 million of tax benefits to the holding company in July 2016, which are committed to be used in executing the restructuring plan for our U.S. life insurance businesses.

Genworth Holdings provides capital support to some of its insurance subsidiaries in the form of guarantees of certain obligations. In July 2016, a capital support agreement of up to $205 million with one of Genworth Holdings insurance subsidiaries domiciled in Bermuda relating to an intercompany reinsurance agreement was terminated as the business was recaptured by one of our U.S. life insurance subsidiaries.

Genworth Holdings provided an unlimited guarantee for the benefit of policyholders for the payment of valid claims by our European mortgage insurance subsidiary prior to its sale in May 2016. Following the sale of this U.K. subsidiary to AmTrust Financial Services, Inc., the guarantee is now limited to the payment of valid claims on policies in-force prior to the sale date and those written approximately 90 days subsequent to the date of the sale, and AmTrust Financial Services, Inc. has agreed to provide us with a limited indemnification in the event there is any exposure under the guarantee. As of September 30, 2016, the risk in-force of the business subject to the guarantee was approximately $2.3 billion.

*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 their respective parent company, 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

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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. Product liabilities with longer durations are generally matched with investments having similar duration such as long-term fixed maturity securities and commercial mortgage loans. Shorter-term product 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, 2016, our total cash, cash equivalents and invested assets were $78.3 billion. Our investments in privately placed fixed maturity securities, commercial mortgage loans, policy loans, limited partnership interests and select mortgage-backed and asset-backed securities are relatively illiquid. These asset classes represented approximately 31% of the carrying value of our total cash, cash equivalents and invested assets as of September 30, 2016.

In April 2016, 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 4, 2017, up to an aggregate of approximately 4.6 million of its issued and outstanding common shares. If Genworth Canada decides to repurchase shares through the NCIB, we intend to participate in the NCIB in order to maintain our overall ownership at its current level.

*Capital resources and financing activities*

On May 20, 2016, Genworth Canada, our majority-owned subsidiary, entered into a CAD$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. 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 credit agreement. Genworth Canada s credit facility includes customary representations, warranties, covenants, terms and conditions. As of September 30, 2016, there was no amount outstanding under Genworth Canada s credit facility.

In April 2016, Genworth Holdings terminated its $300 million multicurrency revolving credit facility, prior to its September 26, 2016 maturity date. There were no amounts outstanding under the credit facility at the time of termination.

In January 2016, Genworth Holdings redeemed $298 million of its 2016 Notes and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest.

During the three months ended March 31, 2016, we also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

During the three months ended March 31, 2016, in connection with a life block transaction, River Lake redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake II redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs.

In June 2016, Genworth Financial Mortgage Insurance Pty Limited, our indirect majority-owned subsidiary, redeemed all of its outstanding AUD$50 million of subordinated floating rate notes with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 4.75% due 2021.

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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 sales of assets 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. We target 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. As of September 30, 2016, Genworth Holdings was above this target due in part to intercompany tax payments of $322 million received from its subsidiaries in the second and third quarters of 2016. 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 China Oceanwide transaction or in the event we are unable to refinance our debt maturities, we may be required to pursue asset sales, including potential sales of our mortgage insurance businesses in Canada and Australia and/or a partial sale of our U.S. mortgage insurance business to service our holding company debt. 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 2015 Annual Report on Form 10-K.

*Contractual obligations and commercial commitments*

Except as described above, there have been no material additions or changes to our contractual obligations and commercial commitments as set forth in our 2015 Annual Report on Form 10-K filed on February 26, 2016.

## Securitization Entities

There were no new off-balance sheet securitization transactions during the nine months ended September 30, 2016 or 2015. For a discussion of securitization entities, see note 4 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements.

## 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.

## 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 practices. Except as disclosed below, there were no other material changes in our market risks since December 31, 2015.

In the first nine months of 2016, U.S. Treasury yields remained at historically low levels but rose modestly in the third quarter of 2016 after declining sharply in the second quarter of 2016. Yield levels on U.S. investment grade credit neared record lows in July 2016 on strong global demand. Credit spreads in the energy and metals sectors tightened significantly as commodity prices stabilized at higher levels. 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 (loss). As of September 30, 2016, the U.S. dollar weakened against the currencies in Canada and Australia compared to the balance sheet rate as of December 31, 2015. In the third quarter of 2016, the U.S. dollar weakened against currencies in Canada and Australia compared to the average rate in the third quarter of 2015 and weakened against the currency in Australia in the second quarter of 2016 but strengthened against the currency in Canada in the second quarter of 2016. 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.

*Interest Rate Risk*

We enter into market-sensitive instruments primarily for purposes other than trading. Our life insurance, long-term care insurance and deferred annuity products have significant interest rate risk and are associated with our U.S. life insurance subsidiaries. Our mortgage insurance businesses in Canada and Australia and immediate annuity products have moderate interest rate risk, while our U.S. mortgage insurance business has relatively low interest rate risk.

The significant interest rate risk that is present in our life insurance, long-term care insurance and annuity products is a result of longer duration liabilities where a significant portion of cash flows to pay benefits comes from investment returns. Additionally, certain of these products have implicit and explicit rate guarantees or optionality that is significantly impacted by changes in interest rates. We seek to minimize interest rate risk by purchasing assets to better align the duration of our assets with the duration of the liabilities or utilizing derivatives to mitigate interest rate risk for product lines where asset durations are not sufficient to align with the related liability. Additionally, we also minimize certain of these risks through product design features. However, in our long-term care insurance, life insurance and annuity products, the average life of our assets is shorter than the average life of our liabilities.

Our insurance and investment products are sensitive to interest rate fluctuations and expose us to the risk that falling interest rates or tightening credit spreads will reduce our interest rate margin (the difference between the returns we earn on the investments that support our obligations under these products and the amounts that we must pay to policyholders and contractholders). Because we may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and because many contracts have guaranteed minimum interest crediting rates, declines in earned investment returns can impact the profitability of these products. As of September 30, 2016, of our $12.0 billion deferred annuity products, $0.8 billion have guaranteed minimum interest crediting rate floors greater than or equal to 3.5%, with less than $2 million guaranteed minimum interest crediting rate floors greater than 5.5%. Most of these products were sold prior to 1999. Our universal life insurance products also have guaranteed minimum interest crediting rate floors, with no guaranteed minimum interest crediting rate floors greater than 6.0%. Of our $7.0 billion of universal life insurance products as of September 30, 2016, $4.1 billion have guaranteed minimum interest crediting rate floors ranging between 3% and 4%.

Our life and long-term care insurance products as well as our guaranteed benefits on variable annuities also expose us to the risk of interest rate fluctuations. The pricing and expected future profitability of these products

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are based in part on expected investment returns. Over time, life and long-term care insurance products are expected to generally produce positive cash flows as customers pay periodic premiums, which we invest as they are received. Low interest rates increase reinvestment risk and reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our life insurance, fixed annuity and long-term care insurance products and may increase hedging costs on our in-force block of variable annuity products. A prolonged low interest rate environment may negatively impact the sufficiency of our margins on our DAC and PVFP, which could result in an impairment. In addition, certain statutory capital requirements are based on models that consider interest rates. Prolonged periods of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

The carrying value of our investment portfolio as of September 30, 2016 was $75.3 billion, of which 85% was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We seek to mitigate the market risk associated with our fixed maturity securities portfolio by attempting to match the duration of our fixed maturity securities with the duration of the liabilities that those securities are intended to support. However, because policyholder liabilities can be longer than the duration of fixed income securities, we face heightened reinvestment risk.

Interest rate fluctuations also could have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower- credit instruments to maintain comparable returns. For example, during the three months ended September 30, 2016, we reinvested $3.1 billion at an average rate of 2.6% as compared to our annualized weighted-average investment yield of 4.6%. Issuers of fixed-income securities may also decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments.

The primary market risk for our long-term borrowings is interest rate risk at the time of maturity or early redemption, when we may be required to refinance these obligations. We continue to monitor the interest rate environment and to evaluate refinancing opportunities as maturity dates approach. While we are exposed to interest rate risk from certain variable rate long-term borrowings and non-recourse funding obligations, in certain instances we invest in variable rate assets to back those obligations to mitigate the interest rate risk from the variable interest payments.

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

- reducing the risk between the timing of the receipt of cash and its investment in the market;
- extending or shortening the duration of assets to better align with the duration of the liabilities; and
- protecting against the early termination of an asset or liability.

As a matter of policy, we primarily use derivatives to hedge market or interest rate risk, and we have not and will not engage in derivative market-making, speculative derivative trading or other speculative derivatives activities.

Assuming investment yields remain at the September 30, 2016 levels for an extended period of time and based on our existing policies and investment portfolio as of September 30, 2016, we estimate the impact from investing in that lower interest rate environment could reduce our investment income by approximately $50 million and $100 million in 2017 and 2018, respectively, before considering the impact from taxes or DAC and other adjustments. The above impacts do not include or contemplate any potential changes in crediting rates to policyholders, evaluation of reserve adequacy or unlocking of DAC.

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For a further 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 2015 Annual Report on Form 10-K.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As of September 30, 2016, 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, 2016.

### Changes in Internal Control Over Financial Reporting During the Quarter Ended September 30, 2016

During the three months ended September 30, 2016, 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.

# PART II OTHER INFORMATION

## Item 1. Legal Proceedings

See note 12 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 2015 Annual Report on Form 10-K, as supplemented by the risk factors below, 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. Except as disclosed below, there have been no material changes to the risk factors set forth in the above-referenced filing as of September 30, 2016.*

**The proposed transaction with China Oceanwide may not be completed or may not be completed in the timeframe, terms or manner currently anticipated, which could have a material adverse effect on us and our stock price.**

On October 21, 2016, we entered into a definitive agreement with China Oceanwide, under which 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. As part of the transaction, China Oceanwide has additionally committed to contribute $600 million of cash to allow us to address our debt maturing in 2018, on or before its maturity, as well as $525 million of cash to be contributed to our U.S. life insurance businesses to pursue their restructuring. The transaction is subject to approval by Genworth s stockholders as well as other closing conditions, including the receipt of required regulatory approvals. The required regulatory approvals include, in addition to certain Chinese approvals, certain requisite regulatory and other governmental approvals, non-disapprovals or confirmations, as applicable, from Fannie Mae and Freddie Mac (as may be applicable), the Financial Industry Regulatory Authority, the Committee on Foreign Investment in the United States, certain U.S. insurance regulators in Delaware, New York, North Carolina, South Carolina, Vermont and Virginia and certain Canadian, Australian and New Zealand regulators, and certain regulatory approvals necessary to consummate the transfer by GLIC of its ownership of GLAIC, in whole, to an intermediate holding company and certain other

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planned restructuring transactions to be consummated by us. In addition, the transaction is conditioned on there not having been a change or the public announcement of a change in the financial strength rating assigned to GMICO to below BB (negative outlook) by S&P that is primarily and directly attributable to the actions or inactions by Genworth, its affiliates or their respective representatives that do not relate to an excluded effect (as defined in the merger agreement), or an adverse change in the condition (financial or otherwise) of GMICO and its businesses not resulting from or arising out of an excluded effect. There is no assurance that the conditions to the transaction will be satisfied in a timely manner or at all. If the transaction is not completed, we may suffer a number of consequences that could adversely affect our stock price, business, results of operations and financial condition, including:

- the potential inability to restructure our U.S. life insurance businesses, which we believe is essential to increasing the liquidity of the holding company and isolating long-term care insurance risks from the rest of our businesses;
- increased pressure on and potential downgrades of our debt and financial strength ratings, particularly for our mortgage insurance businesses, which could have an adverse impact on our mortgage businesses;
- a negative impact on our holding company liquidity and ability to service and/or refinance our holding company debt; and
- we may be required to pursue strategic alternatives that would materially impact our business, including potential sales of our mortgage insurance businesses in Canada and Australia and/or a partial sale of our U.S. mortgage insurance business.

There are numerous other risks related to the transaction, including the following:

- the risk that the parties will not be able to obtain stockholder or regulatory approvals, or the possibility that they may delay the transaction or that materially burdensome or adverse regulatory conditions may be imposed in connection with any such regulatory approvals;
- potential legal proceedings may be instituted against us following announcement of the transaction;
- the risk that the proposed transaction disrupts Genworth s 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 Genworth s ability to pursue certain business opportunities or strategic transactions;
- continued availability of capital and financing to Genworth before the consummation of the transaction;

further rating agency actions and downgrades in Genworth s 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.

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In addition, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the transaction, and these fees and costs are payable by us regardless of whether the transaction is consummated.

**We may be required to increase our reserves in our long-term care insurance, life insurance and/or annuity businesses in the fourth quarter of 2016 as a result of the changes we made to assumptions and methodologies in our long-term care insurance business in the third quarter of 2016, deviations from our estimates and actuarial assumptions or other reasons, which could have a material adverse effect on our results of operations and financial condition.**

The expected future profitability and prices of our long-term care insurance, life insurance and some annuity products are based upon expected claims and payment patterns, using assumptions for, among other things, projected interest rates and investment returns, morbidity rates, mortality rates (i.e., likelihood of death of our policyholders and contractholders), persistency, lapses and expenses. The long-term profitability of these products depends upon how our actual experience compares with our pricing and valuation assumptions. If any of our assumptions are inaccurate, our reserves may be inadequate, which may have a material adverse effect on our results of operations, financial condition and business. For example, if morbidity rates are higher than our pricing assumptions, we could be required to make greater payments and thus establish additional reserves under our long-term care insurance policies than we had expected, and such amounts could be significant. Likewise, if mortality rates are lower than our pricing assumptions, we could be required to make greater payments and thus establish additional reserves under both our long-term care insurance policies and annuity contracts and such amounts could be significant. Conversely, if mortality rates are higher than our pricing and valuation assumptions, we could be required to make greater payments under our life insurance policies and annuity contracts with GMDBs than we had projected.

Changes in the assumptions we use can have, and in the past have had, a material adverse effect on our results of operations. For example, during the third quarter of 2016, we completed an annual review of our long-term care insurance claim reserve assumptions. In connection with this review, we made several changes to our assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. As a result of these changes, we increased our long-term care insurance claim reserves by $460 million and increased reinsurance recoverables by $25 million, resulting in an after-tax charge to earnings of $283 million for the third quarter of 2016. See Part 1 Item 1 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates for additional information. Increases to our reserves, including those made in the third quarter of 2016, may also, among other things, limit our ability to execute our strategic plans; reduce our liquidity; and adversely impact our debt or financial strength ratings. Any of these results could have a material adverse impact on business, results of operations and financial condition.

Our loss recognition testing for our long-term care insurance products is reviewed in the aggregate, excluding our acquired block of long-term care insurance, which is tested separately. In the fourth quarter of 2016, we will perform our loss recognition testing. We will incorporate the assumption and methodology changes made in the third quarter of 2016 into this test. We anticipate these changes will have a material negative impact on the margins of our long-term care insurance blocks. Additional information obtained in finalizing our margin review in the fourth quarter of 2016 or further changes to our assumptions or methodologies could materially affect the impact on margins. As a part of the process, we will consider incremental benefits from expected further premium rate actions that would help mitigate the impact of these changes. There is no guarantee that we will be able to obtain regulatory approval for the future rate actions we will assume in connection with our loss recognition testing. As previously disclosed, our acquired block of long-term care insurance had a premium deficiency in 2014. Due to the premium deficiency that existed in 2014, we monitor our acquired block frequently. Although the acquired block has a higher percentage of indemnity policies and therefore would be less likely to be adversely affected by the new claim assumptions, any adverse changes in our assumptions could result in the establishment of additional future policy benefit reserves, which could be material. Our acquired block would not benefit significantly from additional rate actions as it is older, and therefore, there is a higher likelihood that adverse changes could result in additional losses on that block. For our acquired block of long-term care insurance, the impacts of adverse changes in assumptions would be immediately reflected in net income (loss) if our margin for this block is reduced below zero.

As part of our annual loss recognition testing, we will also review assumptions for incidence and interest rates, among other assumptions. We will continue to regularly review our methodologies and assumptions in light of emerging experience and may be required to make further adjustments to our long-term care insurance claim reserves in the future, which could also impact our loss recognition testing results. However, loss recognition testing assumptions have not been finalized and we therefore do not yet know the extent of the impact on our annual loss recognition testing. We currently cannot predict with more specificity the nature, extent or margin impact of any of the assumption and methodology changes we will make in completing our margin review. To the extent, based on the review, our margin is negative, we will be required to recognize a loss, by amortizing more DAC and/or establishing additional benefit reserves, the impact of which may be material. In the event a loss is recognized, we would increase reserves to offset such losses that would be recognized in later years. A significant decrease in our loss recognition testing margin, the need to amortize a significant amount of DAC and/or the need to significantly increase reserves could have a material adverse effect on our business, results of operations and financial condition.

In addition, we will also continue to monitor our experience and assumptions closely and make changes to our assumptions and methodologies, as appropriate, for certain other U.S. life insurance products. In our assumption review in 2015, we looked at a number of assumptions, including older age mortality in our life insurance products and shock lapse in our term universal life insurance product as well as assumptions in our group long-term care insurance products, for which we did not make any changes at that time. We will review these and other assumptions, including interest rate assumptions, again in the fourth quarter of 2016 with the benefit of updated experience and comparisons to industry experience, where appropriate, and we will likely make changes to at least one or more of these or other assumptions with a resulting negative impact. We do not know whether such impact would be material or whether, and to what extent, it would be offset by impacts from future premium rate actions or other assumption changes that may or may not occur. 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.

For a discussion of additional information related to potential changes to our assumptions and methodologies, including certain related sensitivities, see Critical Accounting Estimates as well as Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in our 2015 Annual Report on Form 10-K.

We also perform cash flow testing separately for each of our U.S. life insurance companies on a statutory accounting basis. To the extent that the cash flow testing margin is negative in any of our U.S. life insurance companies, we would need to increase statutory reserves, which would decrease our risk-based capital ratios and we may be required to increase our capital within one or more of our U.S. life insurance companies. A need to significantly increase statutory reserves could have a material adverse effect on our business, results of operations and financial condition. For example, we anticipate the assumption and methodology changes made in the third quarter of 2016 will have a material negative impact on the margins of our long-term care insurance block. As a part of the process, we will consider incremental benefits from expected further premium rate actions that would help mitigate the impact of these changes. There is no guarantee that we will be able to obtain regulatory approval for the future rate actions we will assume in connection with our cash flow testing. We also established $198 million of additional statutory reserves resulting from updates to our universal life insurance products with secondary guarantees in our Virginia and Delaware licensed life insurance subsidiaries as of December 31, 2015. In addition, the New York Department of

Financial Services, which regulates our New York domiciled insurance subsidiary, has historically not allowed us to combine long-term care insurance cash flow testing results with other products and has required specific adequacy testing scenarios that are generally more severe than those deemed acceptable in other states. Moreover, the required testing scenarios by the New York Department of Financial Services have a disproportionate impact on our long-term care insurance products. Based on our annual statutory cash flow testing of our long-term care insurance business, our New York insurance subsidiary recorded $89 million of additional statutory reserves in the fourth quarter of 2015 and expects to record an aggregate of $267 million of additional statutory reserves over the next three years. Given the assumption and methodology changes made in the third quarter of 2016, we would expect the results of cash flow testing for our New York insurance subsidiary to deteriorate which will likely require additional long-term care insurance statutory reserves in the fourth quarter of 2016 and over the next several years. For additional information regarding impacts to statutory capital as a result of reserve increases, see Item 1A Risk Factors An adverse change in our regulatory requirements, including risk-based capital, could result in a decline in our ratings and/or increased scrutiny by regulators and have a material adverse impact on our results of operations, financial condition and business in our 2015 Annual Report on Form 10-K.

The risk that our claims experience may differ significantly from our pricing assumptions is particularly significant for our long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, our actual claims experience will emerge over many years, or decades, after both pricing and locked-in valuation assumptions have been established. For example, among other factors, changes in economic and interest rate risk, socio-demographics, behavioral trends (e.g., location of care and level of benefit use) and medical advances, may have a material adverse impact on our future claims trends. Moreover, long-term care insurance does not have the extensive claims experience history of life insurance. As a consequence, given that recent experience will represent a larger proportion of total experience, our long-term care insurance assumptions will be more heavily influenced by recent experience than would be the case for our life insurance assumptions. It follows that our ability to forecast future claim costs for long-term care insurance is more limited than for life insurance. For additional information on our long-term care insurance reserves, including the significant historical financial impact of some of these risks, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Insurance liabilities and reserves in our 2015 Annual Report on Form 10-K.

The effect of persistency on profitability varies for different products. For most of our life insurance and deferred annuity products, actual persistency that is lower than our persistency assumptions could have an adverse impact on profitability, primarily because we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy or contract. For our deferred annuities with GMWBs and guaranteed annuitization benefits, actual persistency that is higher than our persistency assumptions could have an adverse impact on profitability because we could be required to make withdrawal or annuitization payments for a longer period of time than the account value would support. For our universal life insurance policies, increased persistency that is the result of the sale of policies by the insured to third parties that continue to make premium payments on policies that would otherwise have lapsed, also known as life settlements, could have an adverse impact on profitability because of the higher claims rate associated with settled policies.

For our long-term care insurance and some other health insurance policies, actual persistency in later policy durations that is higher than our persistency assumptions could have a negative impact on profitability. If these policies remain in-force longer than we assumed, then we could be required to make greater benefit payments than we had anticipated when we priced these products. This risk is particularly significant in our long-term care insurance business because we do not have the experience history that we have in many of our other businesses. As a result, our ability to predict persistency and resulting benefit experience for long-term care insurance is more limited than for many other products. A significant number of our long-term care insurance policies have experienced higher persistency than we had originally assumed, which has resulted in higher claims and an adverse effect on the profitability of that business. In addition, the impact of inflation on claims could be more pronounced for our long-term care insurance business than our other businesses given the long tail nature of this business. To the extent inflation causes long-term care costs to increase, we will be required to increase our claim reserves. Although we consider the potential effects of inflation when setting premium rates, our premiums may not fully offset the effects of inflation and may result in our underpricing of the risks we insure.

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The risk that our lapse experience may differ significantly from our pricing assumptions is significant for our term life and term universal life insurance policies. These policies generally have a level premium period for a specified period of years (e.g., 10 years to 30 years), after which the premium may increase significantly. The level premium period for a significant portion of our term life insurance policies will end in the next few years and policyholders may lapse with greater frequency than we anticipate in our reserve assumptions. In addition, it may be that healthy policyholders are the ones who lapse (as they can more easily replace coverage at a lower cost), creating adverse selection where less healthy policyholders remain in our portfolio. If the frequency of lapses is higher than our reserve assumptions, we would experience higher DAC amortization and lower premiums and could experience higher benefit costs. We have somewhat limited experience on which to base both the lapse assumption and the mortality assumption after the end of the level premium period, which increases the uncertainty associated with our assumptions and reserve levels. However, we have experienced both a greater frequency of policyholder lapses and more severe adverse selection, after the level premium period, and this experience could continue or worsen.

Although some of our products permit us to increase premiums during the life of the policy or contract, we cannot guarantee that these increases would be sufficient to maintain profitability or that such increases would be approved by regulators or approved in a timely manner. Moreover, many of our products either do not permit us to increase premiums or limit those increases during the life of the policy or contract. Significant deviations in experience from pricing expectations could have an adverse effect on the profitability of our products. In addition to our annual reviews, we regularly review our methodologies and assumptions in light of emerging experience and may be required to make further adjustments to reserves in our long-term care insurance, life insurance and/or annuities businesses in the future. Any changes to these reserves may have a materially negative impact on our results of operations, financial condition and business.

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## Item 6. Exhibits

| Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated October 21, 2016, by and among the 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 October 24, 2016) |
| 12 | Statement of Ratio of Income to Fixed Charges |
| 31.1 | Certification of Thomas J. McInerney |
| 31.2 | Certification of Kelly L. Groh |
| 32.1 | Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Thomas J. McInerney |
| 32.2 | Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Kelly L. Groh |
| 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: November 8, 2016

By: /s/ Matthew D. Farney

**Matthew D. Farney**

**Vice President and Controller**

**(Principal Accounting Officer)**

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