

GENWORTH FINANCIAL INC
Form 10-Q
May 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

80-0873306
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

6620 West Broad Street

Richmond, Virginia
(Address of Principal Executive Offices)

23230
(Zip Code)

(804) 281-6000

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of April 27, 2017, 498,948,884 shares of Class A Common Stock, par value \$0.001 per share, were outstanding.

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

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 60,597	\$ 60,572
Equity securities available-for-sale, at fair value	709	632
Commercial mortgage loans	6,107	6,111
Restricted commercial mortgage loans related to securitization entities	122	129
Policy loans	1,761	1,742
Other invested assets	2,272	2,071
Restricted other invested assets related to securitization entities, at fair value	84	312
Total investments	71,652	71,569
Cash and cash equivalents	3,018	2,784
Accrued investment income	717	659
Deferred acquisition costs	3,207	3,571
Intangible assets and goodwill	381	348
Reinsurance recoverable	17,681	17,755
Other assets	703	673
Separate account assets	7,327	7,299
Total assets	\$ 104,686	\$ 104,658
Liabilities and equity		
Liabilities:		
Future policy benefits	\$ 37,291	\$ 37,063
Policyholder account balances	25,383	25,662
Liability for policy and contract claims	9,295	9,256
Unearned premiums	3,370	3,378
Other liabilities (\$3 and \$1 of other liabilities are related to securitization entities)	2,657	2,916
Borrowings related to securitization entities (\$13 and \$12 are carried at fair value)	68	74
Non-recourse funding obligations	310	310

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Long-term borrowings	4,194	4,180
Deferred tax liability	75	53
Separate account liabilities	7,327	7,299
Total liabilities	89,970	90,191
Commitments and contingencies		
Equity:		
Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 587 million shares issued as of March 31, 2017 and December 31, 2016; 499 million and 498 million shares outstanding as of March 31, 2017 and December 31, 2016, respectively		
	1	1
Additional paid-in capital	11,964	11,962
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,233	1,253
Net unrealized gains (losses) on other-than-temporarily impaired securities	10	9
Net unrealized investment gains (losses)	1,243	1,262
Derivatives qualifying as hedges	2,036	2,085
Foreign currency translation and other adjustments	(183)	(253)
Total accumulated other comprehensive income (loss)	3,096	3,094
Retained earnings	451	287
Treasury stock, at cost (88 million shares as of March 31, 2017 and December 31, 2016)	(2,700)	(2,700)
Total Genworth Financial, Inc.'s stockholders' equity	12,812	12,644
Noncontrolling interests	1,904	1,823
Total equity	14,716	14,467
Total liabilities and equity	\$ 104,686	\$ 104,658

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2017	2016
Revenues:		
Premiums	\$ 1,136	\$ 794
Net investment income	790	789
Net investment gains (losses)	34	(19)
Policy fees and other income	211	221
Total revenues	2,171	1,785
Benefits and expenses:		
Benefits and other changes in policy reserves	1,246	860
Interest credited	167	177
Acquisition and operating expenses, net of deferrals	270	394
Amortization of deferred acquisition costs and intangibles	94	99
Interest expense	62	105
Total benefits and expenses	1,839	1,635
Income from continuing operations before income taxes	332	150
Provision for income taxes	116	23
Income from continuing operations	216	127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 155	\$ 53
Income from continuing operations available to Genworth Financial, Inc.'s common stockholders per share:		
Basic	\$ 0.31	\$ 0.14
Diluted	\$ 0.31	\$ 0.14

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

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Basic	\$ 0.31	\$ 0.11
Diluted	\$ 0.31	\$ 0.11
Weighted-average common shares outstanding:		
Basic	498.6	498.0
Diluted	501.0	499.4
Supplemental disclosures:		
Total other-than-temporary impairments	\$ (1)	\$ (11)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(1)	(11)
Other investments gains (losses)	35	(8)
Total net investment gains (losses)	\$ 34	\$ (19)

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2017	2016
Net income	\$ 216	\$ 108
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(12)	807
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	(4)
Derivatives qualifying as hedges	(49)	257
Foreign currency translation and other adjustments	119	216
Total other comprehensive income	59	1,276
Total comprehensive income	275	1,384
Less: comprehensive income attributable to noncontrolling interests	118	156
Total comprehensive income available to Genworth Financial, Inc.'s common stockholders	\$ 157	\$ 1,228

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc.'s stockholder equity	Noncontrolling interests	Total equity
Balances as of								
December 31, 2016	\$ 1	\$ 11,962	\$ 3,094	\$ 287	\$ (2,700)	\$ 12,644	\$ 1,823	\$ 14,467
Cumulative effect of change in accounting, net of taxes				9		9		9
Comprehensive income:								
Net income				155		155	61	216
Other comprehensive income, net of taxes			2			2	57	59
Total comprehensive income						157	118	275
Dividends to noncontrolling interests							(39)	(39)
Stock-based compensation expense and exercises and other		2				2	2	4
Balances as of March 31, 2017	\$ 1	\$ 11,964	\$ 3,096	\$ 451	\$ (2,700)	\$ 12,812	\$ 1,904	\$ 14,716
Balances as of								
December 31, 2015	\$ 1	\$ 11,949	\$ 3,010	\$ 564	\$ (2,700)	\$ 12,824	\$ 1,813	\$ 14,637
Comprehensive income:								
Net income				53		53	55	108
Other comprehensive income, net of taxes			1,175			1,175	101	1,276
Total comprehensive income						1,228	156	1,384
Dividends to noncontrolling interests							(52)	(52)

Stock-based compensation
expense and exercises and
other

3

3

1

4

Balances as of March 31,
2016

\$ 1	\$ 11,952	\$ 4,185	\$ 617	\$ (2,700)	\$ 14,055	\$ 1,918	\$ 15,973
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See Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 216	\$ 108
Less loss from discontinued operations, net of taxes		19
Adjustments to reconcile net income to net cash from operating activities:		
Gain on sale of business		(20)
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(33)	(38)
Net investment (gains) losses	(34)	19
Charges assessed to policyholders	(183)	(191)
Acquisition costs deferred	(22)	(50)
Amortization of deferred acquisition costs and intangibles	94	99
Deferred income taxes	93	7
Trading securities, held-for-sale investments and derivative instruments	365	21
Stock-based compensation expense	10	7
Change in certain assets and liabilities:		
Accrued investment income and other assets	(79)	(159)
Insurance reserves	377	36
Current tax liabilities	(37)	(8)
Other liabilities, policy and contract claims and other policy-related balances	(112)	406
Net cash from operating activities	655	256
Cash flows used by investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	1,060	840
Commercial mortgage loans	166	192
Restricted commercial mortgage loans related to securitization entities	6	6
Proceeds from sales of investments:		
Fixed maturity and equity securities	2,173	905
Purchases and originations of investments:		
Fixed maturity and equity securities	(2,710)	(2,042)
Commercial mortgage loans	(161)	(200)
Other invested assets, net	(676)	34
Policy loans, net		10

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Net cash used by investing activities	(142)	(255)
Cash flows used by financing activities:		
Deposits to universal life and investment contracts	218	571
Withdrawals from universal life and investment contracts	(467)	(517)
Redemption of non-recourse funding obligations		(1,620)
Repayment and repurchase of long-term debt		(326)
Repayment of borrowings related to securitization entities	(7)	(10)
Dividends paid to noncontrolling interests	(39)	(52)
Other, net	(9)	13
Net cash used by financing activities	(304)	(1,941)
Effect of exchange rate changes on cash and cash equivalents	25	31
Net change in cash and cash equivalents	234	(1,909)
Cash and cash equivalents at beginning of period	2,784	5,993
Cash and cash equivalents at end of period	3,018	4,084
Less cash and cash equivalents held for sale at end of period		41
Cash and cash equivalents of continuing operations at end of period	\$ 3,018	\$ 4,043

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

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

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement) with Asia Pacific Global Capital Co., Ltd. (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. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the 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. At a special meeting held on March 7, 2017, Genworth's stockholders voted on and approved a proposal to adopt the Merger Agreement. The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions. Both parties are engaging with the relevant regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to target closing the transaction in the middle of 2017.

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

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

We operate our business through the following five operating segments:

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

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

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Runoff. The Runoff segment includes the results of non-strategic products which have not been 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.

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 2016 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2017, we adopted 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, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted this new accounting guidance on a modified retrospective basis and recorded a previously disallowed deferred tax asset of \$9 million with a corresponding increase to cumulative effect of change in accounting within retained earnings at adoption.

On January 1, 2017, we adopted 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. We did not have any significant impact from this guidance on our consolidated financial statements.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On January 1, 2017, we adopted 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. This guidance is consistent with our previous accounting practices and, accordingly, did not have any impact on our consolidated financial statements.

On January 1, 2017, we adopted 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. This guidance is consistent with our previous accounting for derivative contract novations and, accordingly, did not have any impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (the FASB) issued new guidance shortening the amortization period for the premium component of callable debt securities purchased at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. The guidance is currently effective for us on January 1, 2019, with early adoption permitted. We are in process of evaluating the impact the guidance may have on our consolidated financial statements.

In February 2017, the FASB issued new guidance to clarify the accounting for gains and losses from the derecognition of nonfinancial assets and accounting for partial sales of nonfinancial assets. The new guidance clarifies when transferring ownership interests in a consolidated subsidiary holding nonfinancial assets is within scope. It also states that the reporting entity should identify each distinct nonfinancial asset and derecognize when a counterparty obtains control, and clarifies the accounting for partial sales. The new guidance is currently effective for us on January 1, 2018. We do not expect any significant impacts from this guidance on our consolidated financial statements.

In January 2017, the FASB issued new guidance simplifying the test for goodwill impairment. The new guidance states goodwill impairment is equal to the difference between the carrying value and fair value of the reporting unit up to the amount of recorded goodwill. The new guidance is currently effective for us on January 1, 2020, with early adoption permitted for testing dates after January 1, 2017. We do not expect any significant impacts from this new guidance on our consolidated financial statements.

In October 2016, the FASB issued new guidance related to the income tax effects of intra-entity transfers of assets other than inventory. The new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance is currently effective for us on January 1, 2018. We are still in process of evaluating the impact the guidance may have on our consolidated financial statements, including any cumulative effect adjustment that will be recorded directly to retained earnings as

of the beginning of the period of adoption.

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

(Amounts in millions, except per share amounts)	Three months ended	
	2017	2016
Weighted-average shares used in basic earnings per share calculations	498.6	498.0
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	2.4	1.4
Weighted-average shares used in diluted earnings per share calculations	501.0	499.4
Income from continuing operations:		
Income from continuing operations	\$ 216	\$ 127
Less: income from continuing operations attributable to noncontrolling interests	61	55
Income from continuing operations available to Genworth Financial, Inc.'s common stockholders	\$ 155	\$ 72
Basic per share	\$ 0.31	\$ 0.14
Diluted per share	\$ 0.31	\$ 0.14
Loss from discontinued operations:		
Loss from discontinued operations, net of taxes	\$	\$ (19)
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests		
Loss from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders	\$	\$ (19)
Basic per share	\$	\$ (0.04)

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Diluted per share	\$	\$ (0.04)
Net income:		
Income from continuing operations	\$ 216	\$ 127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc.'s common stockholders	\$ 155	\$ 53
Basic per share	\$ 0.31	\$ 0.11
Diluted per share	\$ 0.31	\$ 0.11

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments*(a) Net Investment Income*

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

(Amounts in millions)	Three months ended March 31,	
	2017	2016
Fixed maturity securities taxable	\$ 641	\$ 641
Fixed maturity securities non-taxable	3	3
Commercial mortgage loans	77	81
Restricted commercial mortgage loans related to securitization entities	2	2
Equity securities	8	5
Other invested assets	32	38
Restricted other invested assets related to securitization entities		2
Policy loans	42	35
Cash, cash equivalents and short-term investments	6	5
Gross investment income before expenses and fees	811	812
Expenses and fees	(21)	(23)
Net investment income	\$ 790	\$ 789

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended March 31,	
	2017	2016
Available-for-sale securities:		
Realized gains	\$ 63	\$ 16
Realized losses	(34)	(23)

Net realized gains (losses) on available-for-sale securities	29	(7)
Impairments:		
Total other-than-temporary impairments	(1)	(11)
Portion of other-than-temporary impairments included in other comprehensive income		
Net other-than-temporary impairments	(1)	(11)
Trading securities		
Commercial mortgage loans	1	1
Net gains (losses) related to securitization entities	2	8
Derivative instruments ⁽¹⁾	3	(38)
Net investment gains (losses)	\$ 34	\$ (19)

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

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

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended March 31, 2017 and 2016 was \$876 million and \$240 million, respectively, which was approximately 96% and 91%, respectively, of book value.

The following represents the activity for credit losses recognized in net income on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in other comprehensive income (OCI) as of and for the three months ended March 31:

(Amounts in millions)	2017	2016
Beginning balance	\$ 42	\$ 64
Reductions:		
Securities sold, paid down or disposed	(1)	(1)
Ending balance	\$ 41	\$ 63

(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 were as follows as of the dates indicated:

(Amounts in millions)	March 31, 2017	December 31, 2016
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	\$ 3,983	\$ 3,656
Equity securities	49	12
Subtotal ⁽¹⁾	4,032	3,668
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,994)	(1,611)
Income taxes, net	(703)	(711)

Net unrealized investment gains (losses)	1,335	1,346
Less: net unrealized investment gains (losses) attributable to noncontrolling interests	92	84
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	\$ 1,243	\$ 1,262

(1) Excludes foreign exchange.

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

(Amounts in millions)	2017	2016
Beginning balance	\$ 1,262	\$ 1,254
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	392	1,596
Adjustment to deferred acquisition costs	(305)	(142)
Adjustment to present value of future profits	(5)	(34)
Adjustment to sales inducements	(5)	(19)
Adjustment to benefit reserves	(68)	(174)
Provision for income taxes	(2)	(436)
Change in unrealized gains (losses) on investment securities	7	791
Reclassification adjustments to net investment (gains) losses, net of taxes of \$10 and \$(6)	(18)	12
Change in net unrealized investment gains (losses)	(11)	803
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	8	
Ending balance	\$ 1,243	\$ 2,057

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

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

(Amounts in millions)	Amortized cost or cost	Gross unrealized gains		Gross unrealized losses		Fair value
		Not other-than- temporarily impaired	Other-than- temporarily impaired	Not other-than- temporarily impaired	Other-than- temporarily impaired	
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	\$ 4,837	\$ 681	\$	\$ (25)	\$	\$ 5,493
State and political subdivisions	2,565	191		(46)		2,710
Non-U.S. government	1,722	106		(11)		1,817
U.S. corporate:						
Utilities	4,215	456		(36)		4,635
Energy	2,192	166		(19)		2,339
Finance and insurance	5,882	465		(31)		6,316
Consumer non-cyclical	4,380	441		(28)		4,793
Technology and communications	2,520	150		(27)		2,643
Industrial	1,223	86		(9)		1,300
Capital goods	2,085	236		(12)		2,309
Consumer cyclical	1,480	96		(14)		1,562
Transportation	1,105	86		(14)		1,177
Other	331	19		(1)		349
Total U.S. corporate	25,413	2,201		(191)		27,423
Non-U.S. corporate:						
Utilities	985	44		(9)		1,020
Energy	1,281	122		(8)		1,395
Finance and insurance	2,445	151		(7)		2,589
Consumer non-cyclical	701	20		(9)		712
Technology and communications	968	50		(6)		1,012
Industrial	924	56		(4)		976
Capital goods	563	25		(3)		585
Consumer cyclical	451	11		(1)		461

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Transportation	632	67		(6)		693
Other	2,600	187		(6)		2,781
Total non-U.S. corporate	11,550	733		(59)		12,224
Residential mortgage-backed	4,139	264	12	(11)		4,404
Commercial mortgage-backed	3,250	97	4	(49)		3,302
Other asset-backed	3,231	15	1	(23)		3,224
Total fixed maturity securities	56,707	4,288	17	(415)		60,597
Equity securities	667	55		(13)		709
Total available-for-sale securities	\$ 57,374	\$ 4,343	\$ 17	\$ (428)	\$	\$ 61,306

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

As of December 31, 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:

(Amounts in millions)	Gross unrealized gains		Gross unrealized losses		Fair value
	Amortized cost or cost	Not other-than-temporarily impaired	Other-than-temporarily impaired	Not other-than-temporarily impaired	
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	\$ 5,439	\$ 647	\$	\$ (50)	\$ 6,036
State and political subdivisions	2,515	182		(50)	2,647
Non-U.S. government	2,024	101		(18)	2,107
U.S. corporate:					
Utilities	4,137	454		(41)	4,550
Energy	2,167	157		(24)	2,300
Finance and insurance	5,719	424		(46)	6,097
Consumer non-cyclical	4,335	433		(34)	4,734
Technology and communications	2,473	157		(32)	2,598
Industrial	1,161	76		(14)	1,223
Capital goods	2,043	228		(13)	2,258
Consumer cyclical	1,455	92		(17)	1,530
Transportation	1,121	86		(17)	1,190
Other	332	17		(1)	348
Total U.S. corporate	24,943	2,124		(239)	26,828
Non-U.S. corporate:					
Utilities	940	40		(11)	969
Energy	1,234	109		(12)	1,331
Finance and insurance	2,413	134		(9)	2,538
Consumer non-cyclical	711	17		(14)	714
Technology and communications	953	44		(10)	987
Industrial	928	39		(9)	958
Capital goods	518	21		(4)	535
Consumer cyclical	434	10		(2)	442
Transportation	619	65		(7)	677
Other	2,967	190		(13)	3,144

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Total non-U.S. corporate	11,717	669		(91)		12,295
Residential mortgage-backed	4,122	259	10	(12)		4,379
Commercial mortgage-backed	3,084	98	3	(56)		3,129
Other asset-backed	3,170	15	1	(35)		3,151
Total fixed maturity securities	57,014	4,095	14	(551)		60,572
Equity securities	628	31		(27)		632
Total available-for-sale securities	\$ 57,642	\$ 4,126	\$ 14	\$ (578)	\$	\$ 61,204

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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 investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2017:

(Dollar amounts in millions)	Less than 12 months			12 months or more			Total		
	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises									
	\$ 861	\$ (25)	41	\$	\$		\$ 861	\$ (25)	41
State and political subdivisions	564	(28)	96	142	(18)	12	706	(46)	108
Non-U.S. government	345	(11)	35				345	(11)	35
U.S. corporate	4,601	(155)	630	509	(36)	68	5,110	(191)	698
Non-U.S. corporate	1,493	(41)	221	298	(18)	41	1,791	(59)	262
Residential mortgage-backed	675	(10)	104	56	(1)	31	731	(11)	135
Commercial mortgage-backed	1,067	(48)	153	16	(1)	7	1,083	(49)	160
Other asset-backed	847	(6)	150	344	(17)	67	1,191	(23)	217
Subtotal, fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
Equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	\$ 10,539	\$ (329)	1,590	\$ 1,470	\$ (99)	274	\$ 12,009	\$ (428)	1,864
% Below cost fixed maturity securities:									
<20% Below cost	\$ 10,453	\$ (324)	1,430	\$ 1,325	\$ (78)	220	\$ 11,778	\$ (402)	1,650
20%-50% Below cost				40	(13)	6	40	(13)	6
Total fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
% Below cost equity securities:									
<20% Below cost	83	(4)	151	105	(8)	48	188	(12)	199
20%-50% Below cost	3	(1)	9				3	(1)	9

Total equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	\$ 10,539	\$ (329)	1,590	\$ 1,470	\$ (99)	274	\$ 12,009	\$ (428)	1,864
Investment grade	\$ 10,163	\$ (318)	1,390	\$ 1,172	\$ (79)	216	\$ 11,335	\$ (397)	1,606
Below investment grade	376	(11)	200	298	(20)	58	674	(31)	258
Total for securities in an unrealized loss position	\$ 10,539	\$ (329)	1,590	\$ 1,470	\$ (99)	274	\$ 12,009	\$ (428)	1,864

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Dollar amounts in millions)	Less than 12 months			12 months or more			Total		
	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities	Fair value	unrealized losses	Number of securities
Description of Securities									
U.S. corporate:									
Utilities	\$ 784	\$ (35)	118	\$ 21	\$ (1)	4	\$ 805	\$ (36)	122
Energy	253	(5)	37	204	(14)	25	457	(19)	62
Finance and insurance	1,140	(25)	151	99	(6)	14	1,239	(31)	165
Consumer non-cyclical	825	(28)	105				825	(28)	105
Technology and communications	450	(19)	62	89	(8)	13	539	(27)	75
Industrial	181	(5)	27	46	(4)	5	227	(9)	32
Capital goods	321	(11)	48	6	(1)	1	327	(12)	49
Consumer cyclical	335	(12)	43	31	(2)	5	366	(14)	48
Transportation	295	(14)	37	13		1	308	(14)	38
Other	17	(1)	2				17	(1)	2
Subtotal, U.S. corporate securities	4,601	(155)	630	509	(36)	68	5,110	(191)	698
Non-U.S. corporate:									
Utilities	232	(8)	23	14	(1)	1	246	(9)	24
Energy	84	(2)	17	83	(6)	14	167	(8)	31
Finance and insurance	265	(5)	44	27	(2)	7	292	(7)	51
Consumer non-cyclical	238	(9)	24				238	(9)	24
Technology and communications	197	(5)	27	18	(1)	1	215	(6)	28
Industrial	91	(2)	12	46	(2)	6	137	(4)	18
Capital goods	66	(1)	10	28	(2)	2	94	(3)	12
Consumer cyclical	60	(1)	14				60	(1)	14
Transportation	95	(5)	15	25	(1)	2	120	(6)	17
Other	165	(3)	35	57	(3)	8	222	(6)	43
Subtotal, non-U.S. corporate securities	1,493	(41)	221	298	(18)	41	1,791	(59)	262

Total for corporate securities in an unrealized loss position	\$ 6,094	\$ (196)	851	\$ 807	\$ (54)	109	\$ 6,901	\$ (250)
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