

GENWORTH FINANCIAL INC  
Form 10-K  
February 27, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**6620 West Broad Street**

**80-0873306**  
**(I.R.S. Employer**  
**Identification No.)**

**Richmond, Virginia**  
**(Address of principal executive offices)**

**23230**  
**(Zip Code)**

**(804) 281-6000**

**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act**

<b>Title of Each Class</b>	<b>Name of each exchange on which registered</b>
<b>Class A Common Stock, par value \$.001 per share</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

As of February 15, 2017, 498,424,216 shares of Class A Common Stock, par value \$0.001 per share were outstanding.

The aggregate market value of the common equity (based on the closing price of the Class A Common Stock on the New York Stock Exchange) held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.3 billion. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2017 annual meeting of the registrant's stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**Cautionary Note Regarding Forward-looking Statements**

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Examples of forward-looking statements include statements we make relating to the China Oceanwide transaction. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially from those in the forward-looking statements due to global political, economic, business, competitive, market, regulatory and other factors and risks, including the items identified under Part I Item 1A Risk Factors. We therefore caution you against relying on any forward-looking statements.

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

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**PART I**

*In this Annual Report on Form 10-K, unless the context otherwise requires, Genworth, we, us and our refer to Genworth Financial, Inc. and its subsidiaries.*

**Item 1. Business  
Overview**

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 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.

We are dedicated to helping meet the homeownership and long-term care needs of our customers. We are headquartered in Richmond, Virginia. We facilitate homeownership in the United States and internationally by providing mortgage insurance products that allow people to purchase homes with low down payments while protecting lenders against the risk of default. Through our homeownership education and assistance programs, we also help people keep their homes when they experience financial difficulties. We offer individual and group long-term care insurance products to meet consumer needs for long-term care. On March 7, 2016, we suspended sales of our traditional life insurance and fixed annuity products.

We operate our business through 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. For the year ended December 31, 2016, our U.S. Mortgage Insurance segment's income from continuing operations available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders were \$249 million and \$250 million, respectively.

***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. For the year ended December 31, 2016, our Canada Mortgage Insurance segment's income from continuing operations available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders were \$159 million and \$146 million, respectively.

***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. For the year ended December 31, 2016, our Australia Mortgage Insurance segment's income from continuing operations available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders were \$65 million and \$62 million, respectively.

***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. For the year ended December 31, 2016, our U.S. Life Insurance segment had a loss from continuing operations available to Genworth Financial, Inc.'s common stockholders and an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$146 million and \$215 million, respectively.

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**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 ). For the year ended December 31, 2016, our Runoff segment's income from continuing operations available to Genworth Financial, Inc.'s common stockholders and adjusted operating income available to Genworth Financial, Inc.'s common stockholders were \$25 million and \$28 million, respectively.

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. See note 24 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for information related to discontinued operations. For the year ended December 31, 2016, Corporate and Other activities had a loss from continuing operations available to Genworth Financial, Inc.'s common stockholders and an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$600 million and \$587 million, respectively.

We had \$12.6 billion of total Genworth Financial, Inc.'s stockholders' equity and \$104.7 billion of total assets as of December 31, 2016. For the year ended December 31, 2016, our revenues were \$8.4 billion and we had a net loss available to Genworth Financial, Inc.'s common stockholders of \$0.3 billion.

## **Strategic Update**

We continue to focus 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 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. The agreement concludes our previously announced strategic review process, which we have undertaken over the past two years. The transaction is subject to approval by Genworth's stockholders as well as other closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international markets. Both parties are engaging with regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to expect the transaction to close by mid-2017.

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***

In February 2016, we announced that one of our strategic objectives was to separate, then isolate, through a series of transactions, our long-term care insurance business from our other U.S. life insurance businesses. We intend to continue to pursue this plan in connection with the China Oceanwide transaction, with some differences from our previously announced restructuring plan. Our goal under the plan 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. 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. We will also pursue a variety of reinsurance transactions. Taking these actions would achieve our strategic objective of separating and isolating our long-term care insurance business from our other U.S. life insurance businesses, 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.

### ***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. Prior to the announcement 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. As a result of the recent performance of our long-term care and life insurance businesses and the charges we recorded in the third and fourth quarters of 2016, 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; 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.

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**Table of Contents*****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 was 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, the repatriation transaction adversely impacted GLIC 's risk-based capital ( RBC ) ratio by eight 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 under the timeframe, terms or manner currently anticipated, which could have a material adverse effect on us and our stock price.

***U.S. Mortgage Insurance***

Through our U.S. Mortgage Insurance segment, we provide private mortgage insurance. Private mortgage insurance enables borrowers to buy homes with a down payment of less than 20% of the home 's value ( low down-payment mortgages or high loan-to-value mortgages ). Mortgage insurance protects lenders against loss in the event of a borrower 's default. It also generally aids financial institutions in managing their capital efficiently by, in some cases, reducing the capital required for low-down-payment mortgages. If a borrower defaults on mortgage payments, private mortgage insurance reduces and may eliminate losses to the insured institution. Private mortgage insurance may also facilitate the sale of mortgage loans in the secondary mortgage market because of the credit enhancement it provides.

We have been providing mortgage insurance products and services in the United States since 1981 and operate in all 50 states and the District of Columbia. Our principal mortgage insurance customers are originators of residential mortgage loans who typically determine which mortgage insurer or insurers they will use for the placement of mortgage insurance written on loans they originate. For the year ended December 31, 2016, approximately 19% of new insurance written in our U.S. mortgage insurance business was attributable to our largest five lender customers, with no customer representing more than 10% of new insurance written.

The U.S. private mortgage insurance industry is affected in part by the requirements and practices of the Federal National Mortgage Association ( Fannie Mae ) and the Federal Home Loan Mortgage Corporation

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( Freddie Mac ). Fannie Mae and Freddie Mac are government-sponsored enterprises and we refer to them collectively as the GSEs. The GSEs purchase and provide guarantees on residential mortgages as part of their governmental mandate to provide liquidity through the secondary mortgage market. The GSEs may purchase mortgages with unpaid principal amounts up to a specified maximum, known as the conforming loan limit, which was \$417,000 (up to \$625,000 in certain high-cost geographic areas of the country) as of December 31, 2016 and subject to annual adjustment. Effective January 1, 2017, these limits increased to \$424,100 and \$636,150, respectively.

Each GSE's Congressional charter generally prohibits it from purchasing a mortgage where the loan-to-value ratio exceeds 80% of home value unless the portion of the unpaid principal balance of the mortgage in excess of 80% of the value of the property securing the mortgage is protected against default by lender recourse, participation or by a qualified insurer. Much of the demand for private mortgage insurance is a function of the requirements of the GSEs. The GSEs purchased the majority of the flow loans we insured as of December 31, 2016. The GSEs specify mortgage insurance coverage levels and also have the authority to change the pricing arrangements for purchasing retained-participation mortgages, or mortgages with lender recourse, as compared to insured mortgages, increase or reduce required mortgage insurance coverage percentages, and alter or liberalize underwriting standards and pricing terms on low-down-payment mortgages they purchase. In furtherance of their respective charter requirements, each GSE maintains eligibility criteria to establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the GSEs for high loan-to-value mortgages they acquire. For more information about the financial and other requirements of the GSEs for our U.S. mortgage insurance subsidiaries, see Regulation Mortgage Insurance Regulation Other regulation.

Selected financial information and operating performance measures regarding our U.S. Mortgage Insurance segment are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations U.S. Mortgage Insurance segment.

***Products and services***

The majority of our U.S. mortgage insurance policies provide primary default loss protection on a portion (typically 10% to 40%, known as the coverage percentage) of the outstanding principal balance of an individual mortgage loan plus specified expenses. The lender selects the coverage percentage at the time the loan is originated, often to comply with loan investor requirements. Primary mortgage insurance is placed through flow or bulk mortgage insurance policies.

Flow insurance applications are submitted on a loan by loan basis, either before or shortly after the loan closes (usually no more than 120 days from loan closing). The loan amount and coverage percentage determine our risk in-force on each insured loan. The lender may require the borrower to pay for the mortgage insurance under the terms of the mortgage in which case the premium is typically included in the borrower's monthly mortgage payment (borrower paid mortgage insurance). Lenders also may offer to finance the premium by including it in the loan balance and disbursing funds to the mortgage insurer at the loan closing. Lenders may also directly fund the insurance premium (lender paid mortgage insurance) and may seek to recover that expense from the interest or fees charged on the mortgage. Our primary mortgage insurance policies are predominantly flow mortgage insurance policies.

Bulk mortgage insurance transactions provide primary coverage on a finite set of individual loans identified by the bulk policy. Bulk policies may contain coverage percentages and provisions limiting the insurer's obligation to pay claims until a threshold amount is reached (known as a deductible) or capping the insurer's potential aggregate liability for claims payments (a stop loss). The lender may negotiate terms and conditions of bulk policies, such as the level of deductibles and stop losses. In addition, loans that we insure in bulk mortgage insurance transactions with loan-to-value ratios above 80% typically are also covered by flow mortgage insurance, written either by us or another

private mortgage insurer. We base the premium on our bulk mortgage insurance upon our evaluation of the overall risk of the insured loans included in a transaction and we negotiate the premium directly with the securitizer or other owner of the loans. Premiums for bulk mortgage

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insurance transactions generally are paid monthly by lenders, investors or a securitization vehicle in connection with a securitization transaction or the sale of a loan portfolio.

In addition to flow and bulk primary mortgage insurance, we have in prior years written mortgage insurance on a pool basis. Under pool insurance, the mortgage insurer provides coverage for 100% of the loss on a loan (i.e., without the application of a coverage percentage on individual loans within the pool). Pool insurance typically is secondary coverage to any primary insurance that may be on a loan and the insurer typically is no longer required to cover losses above an aggregate limit (the stop loss). Lenders negotiate the terms and conditions of pool coverage including loan type eligibility, stop losses, premium amounts and coverage termination.

We also perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and expedites the approval process. Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability.

### ***Underwriting and pricing***

Insurance applications comprised in part of information from the loan application file for all flow loans we insure are reviewed to determine eligibility based on underwriting guidelines we approve as well as to establish the applicable premium. We evaluate each borrower's credit strength and history, the characteristics of the loan and the value of the underlying property. Loan applications for flow mortgage insurance are either directly reviewed by us (or our contract underwriters), or as noted below, by lenders under delegated authority and either may utilize automated underwriting systems. A substantial number of our mortgage lender customers underwrite loan applications for mortgage insurance under a delegated underwriting program, in which we permit approved lenders to commit us to insure loans using our pre-approved underwriting guidelines, including credit scores. When underwriting bulk mortgage insurance transactions, we evaluate characteristics of the loans in the portfolio, including credit scores, and examine all or a sample of loan files. We set premiums at the time a certificate of insurance is issued based on our expectations regarding likely performance of a loan. Once a certificate of coverage is issued, we are not able to alter the premium charged or cancel coverage without cause. We continue to monitor current housing conditions and the performance of our books of business to determine if we need to make further changes in our pricing or underwriting guidelines and practices.

Fair Isaac Company ( FICO ) developed the FICO credit scoring model to calculate a score based upon a borrower's credit history. We use the FICO credit score as one indicator of a borrower's credit quality. Typically, a borrower with a higher credit score has a lower likelihood of defaulting on a loan. FICO credit scores range up to 850, with a score of 620 or more generally viewed as a prime loan and a score below 620 generally viewed as a sub-prime loan. A minus loans generally are loans where the borrowers have FICO credit scores between 575 and 660, and where the borrower has a blemished credit history. As of December 31, 2016, on a risk in-force basis and at the time of loan closing, approximately 98% of our primary insurance loans were prime in credit quality with FICO credit scores of at least 620 and approximately 2% had FICO credit scores between 575 and 619.

### ***Loss mitigation***

Under our flow master policy, upon receipt of a valid claim we are generally required to pay the coverage percentage specified in the certificate of insurance and related expenses, but we also have the option to pay the lender an amount equal to the total unpaid loan principal (i.e., without applying the coverage percentage), delinquent interest and other expenses incurred with the default and foreclosure, and acquire title to the property. If a property is sold by the lender



to a third party with our approval, the claim amount may be reduced or

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eliminated. We work closely with lenders who identify and monitor delinquent borrowers. When a delinquency cannot be cured through basic collections, we have the right to approve loan modifications and seek the cooperation of servicers in modifying the terms and conditions of delinquent mortgage loans so as to enable borrowers to stay in their home and avoid foreclosure, thereby potentially reducing our claims. We have granted loss mitigation delegation to servicers whereby they perform loss mitigation efforts on our behalf. Moreover, the Consumer Financial Protection Bureau (CFPB) has promulgated a final rule obligating servicers to engage in loss mitigation efforts with a borrower prior to foreclosure. These efforts have traditionally involved loan modifications intended to enable qualified borrowers to make restructured loan payments or efforts to sell the property thereby potentially reducing claim amounts to us.

After a delinquency is reported to us, we review, and where appropriate conduct further investigations. Under our master policies, we may request specified documentation concerning the origination, closing and servicing of an insured loan. Failure to deliver required documentation or our review of such documentation may result in rescission, cancellation or claims curtailment or denial. We will consider an insured's appeal of our decision and if we agree with the appeal we take the necessary steps to reinstate uninterrupted insurance coverage and reactivate the loan certificate or otherwise address the issues raised in the appeal. If the parties are unable to agree on the outcome of the appeal, the insured may choose to pursue arbitration or litigation under the master policies and challenge the results. If arbitrated, ultimate resolution of the dispute would be pursuant to a panel's binding arbitration award. Subject to applicable limitations in the master policies, legal challenges to our actions may be brought several years later. For additional information regarding our master policies, see Regulation U.S. Insurance Regulation Policy forms.

From time to time, we enter into agreements with policyholders to accelerate claims and negotiate an agreed upon payment amount for claims on an identified group of delinquent loans. In exchange for our accelerated claim payment, mortgage insurance is canceled and we are discharged from any further liability on the identified loans.

### ***Distribution***

We distribute our mortgage insurance products through our dedicated sales force throughout the United States. This sales force primarily markets to financial institutions and mortgage originators which impose a requirement for mortgage insurance as part of the borrower's financing. In addition to our field sales force, we also distribute our products through a telephone sales force serving our smaller lenders, as well as through our Action Center which provides live phone support for all customer segments.

### ***Competition***

In recent years, our principal sources of competition comprised U.S. and state government agencies and other private mortgage insurers. Historically, we have also competed with mortgage lenders and other investors, the GSEs, structured transactions in the capital markets and with other financial instruments designed to mitigate credit risk.

*U.S. and state government agencies.* We and other private mortgage insurers compete for flow mortgage insurance business directly with U.S. federal and state governmental and quasi-governmental agencies, principally the Federal Housing Administration (FHA) and the Veteran's Administration (VA). In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California, Illinois and New York.

*Private mortgage insurers.* The U.S. private mortgage insurance industry remains highly competitive. There are currently six active mortgage insurers, including us.

*Mortgage lenders*, the GSEs and other participants in the mortgage finance industry. We have experienced competition in recent years from various participants in the mortgage finance industry including loan originators,

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the GSEs, investment banks and other purchasers of interests in mortgages as well as reinsurers and other participants in the capital markets. Competition from lenders has been in the form of self-insurance or origination of simultaneous second mortgages used to bring the loan-to-value ratio of a first mortgage below the level where mortgage insurance is required by the GSEs. The GSEs have recently entered into risk sharing transactions with financial institutions other than mortgage insurers designed to reduce the risk of their mortgage portfolios partly in response to their conservator, the Federal Housing Finance Agency ( FHFA ). Third-party reinsurers have entered into recent transactions with mortgage insurers, including one of our U.S. mortgage insurance subsidiaries, pursuant to which the third-party reinsurer assumes mortgage insurance risk for a fee. We may also compete with structured transactions in the capital markets and other financial instruments designed to mitigate the risk of mortgage defaults, such as credit default swaps and credit linked notes.

## **Canada Mortgage Insurance**

We entered the Canadian mortgage insurance market in 1995 and operate in every province and territory. We are currently the leading private mortgage insurer in the Canadian market.

In July 2009, Genworth MI Canada Inc. ( Genworth Canada ), our indirect subsidiary, completed an IPO of its common shares and we currently hold approximately 57.2% of the outstanding common shares of Genworth Canada on a consolidated basis, with Genworth Financial International Holdings, LLC ( GFIIH ) holding 40.6% and our U.S. mortgage insurance business holding 16.6%. See note 23 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information.

Selected financial information and operating performance measures regarding our Canada Mortgage Insurance segment are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Canada Mortgage Insurance segment.

## ***Products***

Our main products are primary flow and bulk mortgage insurance. In both primary flow and bulk mortgage insurance, our mortgage insurance in Canada provides insurance coverage for 100% of the unpaid loan balance, including interest, selling costs and expenses. Regulations in Canada require the use of mortgage insurance for all high loan-to-value mortgage loans extended by federally incorporated banks, trust companies and insurers, where the loan-to-value ratio exceeds 80%. Most mortgage lenders in Canada offer both fixed rate and variable rate mortgages. High loan-to-value mortgages insured by our mortgage insurance business in Canada tend to be predominantly fixed rate mortgages of at least a five-year term, at the end of which the mortgages can be renewed. Most mortgage lenders in Canada offer a portability feature, which allows borrowers to transfer their original mortgage loan to a new property, subject to certain criteria. Our flow mortgage insurance policies contain a portability feature which allows borrowers to also transfer the mortgage default insurance associated with the mortgage loan.

We also provide bulk mortgage insurance to lenders that have originated loans with loan-to-value ratios of less than or equal to 80%. These policies provide lenders with immediate capital relief from applicable bank regulatory capital requirements and facilitate the securitization of mortgages in the Canadian market.

## ***Government guarantee eligibility***

We are subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada) ( PRMHIA ). Under the terms of PRMHIA, the Canadian government guarantees the benefits payable under a mortgage insurance policy, less 10% of the original principal amount of an insured loan, in the event that we fail to make claim

payments with respect to that loan because of insolvency. We pay the Canadian government a risk fee for this guarantee. Because banks are not required to maintain regulatory capital on an asset backed by a sovereign guarantee, our 90% sovereign guarantee permits lenders purchasing our mortgage insurance to reduce their regulatory capital charges for credit risks on mortgages by 90%. Our primary government-sponsored competitor receives a 100% sovereign guarantee. The maximum outstanding insured

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exposure for private insured mortgages is CAD\$350.0 billion, and the risk fee that we and other private mortgage insurers pay to the Canadian government is equal to 2.25% of gross premiums written.

Over the past several years, the Canadian government implemented a series of revisions to the rules for government guaranteed mortgages. We have incorporated these revisions into our underwriting guidelines. For more information about PRMHIA, see Regulation Mortgage Insurance Regulation Canada regulation.

### ***Underwriting and pricing***

We review loan applications for all flow mortgage insurance loans we insure in Canada to evaluate each individual borrower's credit strength and history, the characteristics of the loan and the value of the underlying property. We evaluate the credit strength of a borrower by reviewing his or her credit history and credit score. We employ internal mortgage scoring models in the underwriting processes, as well as automated valuation models to evaluate property risk and fraud application prevention and management tools. When underwriting bulk mortgage insurance transactions, we evaluate characteristics of the loans in the portfolio and examine loan files on a sample basis.

Loan applications for flow mortgage insurance in Canada are processed through a system that analyzes the data based on pre-established criteria and systematically determines the approval status. Our employees manually review loans that do not meet the criteria for automated decisioning. We have established an audit plan to review underwritten loans to ensure that documentation supports the data provided by lenders. Our audit teams request and review samples (statistically valid and/or stratified) of performing loans. Once an audit review has been completed, our audit teams summarize and evaluate their findings against policy. If our audit teams detect non-compliance issues, we work with the lender to develop appropriate corrective actions.

We regularly take actions to reduce our new business risk profile, which includes: tightening underwriting guidelines, product restrictions and reducing new business in geographic areas we believe are more economically sensitive. We believe these underwriting actions have improved our performance on new books of business.

### ***Loss mitigation***

In Canada, we work closely with lenders to identify and monitor delinquent borrowers. When a delinquency cannot be cured through basic collections, we work with the lender and, if permitted, with the borrower to identify an optimal loan workout solution. If it is determined that the borrower has the capacity to make a modified mortgage payment, we work with the lender to implement the most appropriate payment plan to address the borrower's hardship situation. If the borrower does not have the capacity to make payments on a modified loan, we work with the lender and borrower to sell the property at the best price to minimize the severity of our claim and provide the borrower with a reasonable resolution. We continue to execute a strategy to accelerate and facilitate the conveyance of real estate properties to us in selected circumstances. This strategy allows for better control of the remediation and marketing processes, reduction in carrying costs during the sale process and potential realization of a higher sales price with the cumulative impact being lower losses.

After a delinquency is reported to us, or after a claim is received, we review, and where appropriate conduct further investigations, to determine if there has been an event of underwriting non-compliance, non-disclosure of relevant information or any misrepresentation of information provided during the underwriting process. Our master policies provide that we may rescind coverage if there has been any failure to comply with agreed underwriting criteria or in the event of fraud or misrepresentation involving the lender or an agent of the lender. If such issues are identified, the claim or delinquent loan file is reviewed to determine the appropriate action, including potentially reducing the claim amount to be paid or rescinding the coverage. Generally, the issues we have initially identified are reviewed with the

lender and the lender has an opportunity to provide further information or documentation to resolve the issue. Additionally, we may pursue recoveries from borrowers for paid claims within the time period permitted by law and may use third-party collection agencies to assist in these recoveries.

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### ***Distribution and customers***

We maintain dedicated sales forces that market our mortgage insurance products in Canada to lenders. Our sales forces market to financial institutions and mortgage originators, who in turn offer mortgage insurance products to borrowers.

Residential mortgage financing in Canada is concentrated in the country's largest five banks and a limited number of other mortgage originators. The majority of our business in Canada comes from this group of residential mortgage originators. For example, our largest lender customer represented 18% of total gross written premiums in our mortgage insurance business in Canada for the year ended December 31, 2016. No other lender customer accounted for more than 10% of gross written premiums.

### ***Competition***

Our primary mortgage insurance competitor in Canada is the Canada Mortgage and Housing Corporation ( CMHC ) which is owned by the Canadian government, although we currently have one other private competitor in the Canadian market. CMHC's mortgage insurance provides lenders with 100% capital relief from bank regulatory requirements. We compete with CMHC primarily based upon our reputation for high quality customer service, quick decision making on insurance applications, strong underwriting expertise and provision of support services.

### **Australia Mortgage Insurance**

We entered the Australian mortgage insurance market in 1997. In 2016, we were a leading provider of mortgage insurance in Australia based upon flow new insurance written.

In May 2014, Genworth Mortgage Insurance Australia Limited ( Genworth Australia ), a holding company for Genworth's Australian mortgage insurance business, completed an IPO of its common shares and we currently beneficially own 52.0% of the ordinary shares of Genworth Australia through subsidiaries. See note 23 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information.

Selected financial information and operating performance measures regarding our Australia Mortgage Insurance segment are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Australia Mortgage Insurance segment.

### ***Products***

In Australia, our main products are primary flow mortgage insurance, also known as lenders mortgage insurance ( LMI ), and bulk mortgage insurance. LMI is similar to the single premium primary flow mortgage insurance we offer in Canada with 100% coverage. Residential mortgage loans in Australia are predominantly variable rate loans with 25 to 30 year terms. Lenders remit the single premium to us as the mortgage insurer following settlement of the loan and, generally, either collect the equivalent amount from the borrower at the time the loan proceeds are advanced or capitalize it in the loan.

Banks, building societies and credit unions generally acquire LMI only for residential mortgage loans with loan-to-value ratios above 80%. The Australian Prudential Regulation Authority ( APRA ) makes and enforces the rules which govern authorized deposit-taking institutions ( ADIs ). APRA uses an application of international capital standards issued by the Basel Committee on Banking Supervision, which are collectively termed Basel II, that



generally allow for reduced capital requirements for high loan-to-value residential mortgage loans if they have been insured by a mortgage insurance company regulated by APRA. APRA's application of Basel II for ADIs uses an internal ratings-based ( IRB ) approach in which the IRB models must be APRA approved. The IRB models may or may not allocate capital credit for LMI. We do not believe that the IRB models for ADIs currently benefit from an explicit reduction in their capital requirements for mortgage loans

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covered by mortgage insurance. We also believe that APRA and the IRB ADIs have not yet finalized internal models for residential mortgage risk. APRA's insurance authorization conditions require Australian mortgage insurance companies, including ours, to be monoline insurers, which are insurance companies that offer just one type of insurance product.

We also provide bulk mortgage insurance in Australia mainly to APRA-regulated lenders that intend to securitize Australian residential loans they have originated. Bulk mortgage insurance serves as an important source of credit enhancement for the Australian securitization market, and our bulk coverage is generally purchased for low loan-to-value, seasoned loans, and accounted for approximately 4% of new insurance written in our Australian mortgage insurance business for the year ended December 31, 2016.

### ***Underwriting and pricing***

Loan applications for all flow loans we insure in Australia are reviewed either by us or approved lenders under delegated underwriting authority to evaluate each individual borrower's credit strength and history, the characteristics of the loan and the value of the underlying property. Unlike in the United States where FICO credit scores are broadly used in evaluating a borrower's credit strength, standardized credit scores are not widely used in Australia. We employ internal scoring models in the underwriting process and use risk rules models to enhance the underwriter's ability to evaluate the loan risk and make consistent underwriting decisions. Additional tools used by our mortgage insurance business in Australia include automated valuation models to evaluate property risk and fraud application prevention and management tools. When underwriting bulk mortgage insurance transactions, we evaluate characteristics of the loans in the portfolio and examine loan files on a sample basis.

Loan applications for flow mortgage insurance are reviewed by our employees or by employees of qualified mortgage lender customers who underwrite loan applications for mortgage insurance under a delegated underwriting program. This delegated underwriting program permits approved lenders to commit us to insure loans using underwriting guidelines we have previously approved. We have established an audit plan to review delegated underwritten loans to ensure compliance with the approved underwriting guidelines, operational procedures and master policy requirements. Our audit teams request and review samples (statistically valid and/or stratified) of performing loans. Once an audit review has been completed, our audit teams summarize and evaluate their findings against policy. If our audit teams detect non-compliance issues, we work with the lender to develop appropriate corrective actions.

We regularly take actions to reduce our new business risk profile, which include: tightening underwriting guidelines, product restrictions, reducing new business in geographic areas we believe are more economically sensitive, and terminating commercial relationships as a result of weaker business performance. We have also increased prices for certain products based on periodic reviews of performance, with a focus on higher risk segments. We believe these underwriting and pricing actions have improved our performance on newer books of business.

### ***Loss mitigation***

In Australia, we work closely with lenders to identify and monitor delinquent borrowers. When a delinquency cannot be cured through basic collections, we work with the lender to identify an optimal loan workout solution. If it is determined that the borrower has the capacity to make a modified mortgage loan payment, we work with the lender to implement the most appropriate payment plan to address the borrower's hardship situation. If the borrower does not have the capacity to make payments on a modified loan, we work with the lender and borrower to sell the property at the best price to minimize the severity of our claim and provide the borrower with a reasonable resolution.

After a delinquency is reported to us, or after a claim is received, we review, and where appropriate conduct further investigations, to determine if there has been an event of underwriting non-compliance, non-disclosure of

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relevant information or any misrepresentation of information provided during the underwriting process. Our master policies provide that we may rescind coverage if there has been any failure to comply with agreed underwriting criteria or in the event of fraud or misrepresentation involving the lender or an agent of the lender. If such issues are identified, the claim or delinquent loan file is reviewed to determine the appropriate action, including potentially reducing the claim amount to be paid or rescinding the coverage. Generally, the issues we have initially identified are reviewed with the lender and the lender has an opportunity to provide further information or documentation to resolve the issue.

We may also review a group or portfolio of insured loans if we believe there may be systemic misrepresentations or non-compliance issues. If such issues are detected, we generally will work with the lender to develop an agreed settlement in respect of the group of loans so identified. Additionally, we may pursue recoveries from borrowers for paid claims within the time period permitted by law and may use third-party collection agencies to assist in these recoveries.

### ***Distribution and customers***

We maintain a dedicated sales force that markets our mortgage insurance products in Australia to lenders. Our sales force markets to financial institutions and mortgage originators.

There is concentration among a small group of banks that write most of the residential mortgage loans in Australia. We maintain strong relationships within the major bank and regional bank channels, as well as building societies, credit unions and non-bank mortgage originators called mortgage managers. The four largest mortgage originators in Australia provide the majority of the financing for residential mortgage financing in that country. Our mortgage insurance business in Australia is concentrated in a small number of key customers. For the year ended December 31, 2016, approximately 78% and 71%, respectively, of our new insurance written and gross written premiums in our mortgage insurance business in Australia were attributable to our largest three customers, with the largest customer representing 36% and 47%, respectively, of new insurance written and gross written premiums during that year. The term of the current supply and service contract with our largest customer in our mortgage insurance business in Australia expired on December 31, 2016. In November 2016, we entered into a new contract with this customer and it took effect on January 1, 2017 and has a term of three years. The contract with our second largest customer expires at the end of February 2017. Our mortgage insurance business in Australia remains in discussions with that customer and is aware that they are considering alternatives to mortgage insurance. The contract with our third largest customer is set to expire in November 2017 with a 12-month extension option at the customer's discretion but can be terminated at any time by either party with a 90-day notification period.

These banks continue to evaluate the utilization of mortgage insurance in connection with the implementation of the bank capital standards in Australia based on the standards of the Basel Committee, and this could impact both the size of the private mortgage insurance market in Australia and our market share. The response of banks to the new capital standards will develop over time and this response could impact our Australian mortgage insurance business.

### ***Competition***

The Australian flow mortgage insurance market is primarily served by us and one other private mortgage insurance company, as well as certain lender-affiliated captive mortgage insurance companies. In addition, some lenders self-insure certain high loan-to-value mortgage risks. We compete primarily based upon our reputation for high quality customer service, quick decision making on insurance applications, strong underwriting expertise and flexibility in terms of product development and provision of support services.

**U.S. Life Insurance**

Through our U.S. Life Insurance segment, we offer long-term care insurance products. On March 7, 2016, we suspended sales of our traditional life insurance and fixed annuity products. While we no longer sell these

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products, we continue to service our existing retained and reinsured blocks of business. Future long-term care solutions may include over time new life insurance and fixed annuity products with accelerated benefit or other features that address long-term care needs and expand access to broader consumer groups.

Selected financial information and operating performance measures regarding our U.S. Life Insurance segment are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations U.S. Life Insurance segment.

### ***Long-term care insurance***

We established ourselves as a pioneer in long-term care insurance 40 years ago and remain a leading provider in the industry. Our experience helps us plan for disciplined growth built on a foundation of risk management, product innovation and claims processing expertise. We believe our hedging strategies and reinsurance reduce some of the risks associated with these products.

### ***Products***

Our individual and group long-term care insurance products provide defined levels of protection against the significant and escalating costs of long-term care services provided in the insured's home or in assisted living or nursing facilities. In contrast to health insurance, long-term care insurance provides coverage for skilled and custodial care provided outside of a hospital or health-related facility.

We previously launched an enhanced product to improve competitiveness, while meeting our targeted returns, by, among other things, reducing premium rates, benefit levels and adjusting other coverage options. In support of this product, we are investing in targeted distribution and marketing initiatives to increase long-term care insurance sales. In addition, we are evaluating market trends and sales and investing in the development of products and distribution strategies that we believe will help expand the long-term care insurance market over time and meet broader consumer needs. We have suspended sales in Massachusetts, New Hampshire and Vermont, and will consider taking similar actions in the future in other states where we are unable to obtain satisfactory rate increases on in-force policies.

### ***Underwriting***

We employ medical underwriting procedures to assess and quantify risks before we issue our individual long-term care insurance policies. Our group long-term care insurance product utilizes various underwriting processes, including modified guaranteed underwriting for actively at work employees and full medical underwriting for employees outside their enrollment window, retirees or others, including spouses of actively at work employees. We periodically review our underwriting requirements and have made, and may make changes to processes as needed.

### ***Pricing***

We have accumulated extensive pricing and claims experience, and believe we have the largest claims database in the industry. The overall financial performance of our long-term care insurance business depends primarily on the accuracy of our pricing assumptions, including for morbidity and mortality experience, persistency and investment yields. Our claims database provides us with substantial data that has helped us develop pricing methodologies for our newer policies. We tailor pricing based on segmented risk categories, including couples, gender, medical history and other factors. Financial performance on older policies issued without the full benefit of this experience has been worse than initially assumed in pricing of those blocks. We continually monitor trends and developments and update assumptions that may affect the risk, pricing and profitability of our long-term care insurance products and adjust our

new product pricing and other terms, as appropriate. We also work with medical advisors and health industry experts which provide insights on emerging morbidity and medical trends, enabling us to be more proactive in our risk segmentation, pricing and product development strategies.

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### ***In-force rate actions***

As part of our strategy for our long-term care insurance business, we have been implementing, and will continue to pursue, significant premium rate increases on our in-force blocks of business, as needed. The goal of our rate actions already implemented, as well as future rate actions, is to mitigate losses on our older generation policy series and help offset higher than priced-for loss ratios and lower returns on newer generation products. Our approved premium rate actions may cause fluctuations in our loss ratios during the period when reserves are adjusted to reflect policyholders taking reduced benefits or non-forfeiture options within their policy coverage. For all of these rate action filings, we received 96 filing approvals from 25 states in 2016, representing a weighted-average increase of 28% on approximately \$719 million in annualized in-force premiums. We also submitted 79 new filings in 32 states in 2016 on approximately \$834 million in annualized in-force premiums.

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. As a result, the benefits of any rate increase are not fully realized until the implementation cycle is complete and are, therefore, expected to be realized over time. For certain risks related to our long-term care insurance premiums and rate increases, see Item 1A Risk Factors. We may not be able to increase premiums or reduce benefits on our in-force long-term care insurance policies by enough or quickly enough and the rate actions or reduced benefits currently being implemented and any future rate actions may adversely affect demand for our long-term care insurance products, our reputation in the market, our results of operations and our financial condition.

### ***Distribution***

Currently, we distribute our products primarily through appointed independent producers and employer groups. We expect to deepen existing relationships with select distribution partners whose priorities closely align with ours. Additionally, we intend to focus on forming new partnerships that may incrementally expand our customer reach, especially to those in the middle market. Across all channels, we expect to prioritize closer relationships with consumers.

Recent rating agency actions and our lower ratings have resulted in certain distributor suspensions. We expect that our sales will continue to be adversely impacted by our current ratings. Future adverse ratings announcements or actions would further negatively impact our sales levels.

### ***Competition***

Competition in the long-term care insurance industry is primarily from a limited number of insurance companies. Our products compete by providing consumers with an array of long-term care coverage solutions. A broad set of insurers compete in the combination product market whereby they offer life insurance products with riders that accelerate or enhance benefits based upon a long-term care need, and other combination products. We expect that continued changes in the competitive landscape of the long-term care insurance market as well as our financial strength ratings will continue to impact our sales levels.

### ***Life insurance***

Life insurance products provide protection against financial hardship after the death of an insured. Some of these products also offer a savings element that can help accumulate funds to meet future financial needs. Our traditional



life insurance product offerings previously included universal and term life insurance. Our universal life insurance products previously included an index universal life product and linked-benefit products, combining a universal life insurance contract with a long-term care insurance rider. We also have in-force blocks of term universal life and whole life insurance.

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### ***Fixed annuities***

Fixed annuity products help individuals create dependable income streams for life or for a specified period of time and help them save and invest to achieve financial goals. Our traditional fixed annuity product offerings previously included single premium deferred annuities, single premium immediate annuities and structured settlements.

### ***Products***

#### ***Single premium deferred annuities***

Fixed single premium deferred annuities require a single premium payment at time of issue and provide an accumulation period and an annuity payout period. The annuity payout period in these products may be either a defined number of years, the annuitant's lifetime or the longer of a defined number of years and the annuitant's lifetime. During the accumulation period, we credit the account value of the annuity with interest earned at a crediting rate guaranteed for no less than one year at issue, but which may be guaranteed for up to seven years, and thereafter is subject to annual crediting rate resets at our discretion. The crediting rate is based upon many factors including prevailing market rates, spreads and targeted returns, subject to statutory and contractual minimums. The majority of our fixed single premium deferred annuity contractholders retain their contracts for five to ten years.

Fixed indexed annuities have been part of our product suite of single premium deferred annuities. Fixed indexed annuities provide an annual crediting rate that is based on the performance of a defined external index rather than a rate that is declared by the insurance company. The external indices we use are the S&P 500<sup>®</sup> and the Barclay's U.S. Low Volatility ER II Index. Our fixed indexed annuity product also may provide guaranteed minimum withdrawal benefits (GMWBs).

#### ***Single premium immediate annuities***

Single premium immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant's lifetime or the longer of a defined number of years and the annuitant's lifetime in exchange for a single premium.

#### ***Structured settlements***

Structured settlement annuity contracts provide an alternative to a lump sum settlement, generally in a personal injury lawsuit or workers compensation claim, and typically are purchased by property and casualty insurance companies for the benefit of an injured claimant. The structured settlements provide scheduled payments over a fixed period or, in the case of a life-contingent structured settlement, for the life of the claimant with a guaranteed minimum period of payments.

### **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 variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements, FABNs and GICs.

Selected financial information and operating performance measures regarding our Runoff segment are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Runoff segment.

***Products***

*Variable annuities and variable life insurance*

Our variable annuities provide contractholders the ability to allocate purchase payments and contract value to underlying investment options available in a separate account format. The contractholder bears the risk

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associated with the performance of investments in the separate account. In addition, some of our variable annuities permit customers to allocate assets to a guaranteed interest account managed within our general account. Certain of our variable annuity products provide contractholders with lifetime guaranteed income benefits. Our variable annuity products generally provide guaranteed minimum death benefits ( GMDBs ) and may provide GMWBs and certain types of guaranteed annuitization benefits.

Variable annuities generally provide us fees including mortality and expense risk charges and, in some cases, administrative charges. The fees equal a percentage of the contractholder's policy account value or related benefit base value, and as of December 31, 2016, ranged from 0.75% to 4.20% per annum depending on the features and options within a contract.

Our variable annuity contracts with a basic GMDB provide a minimum benefit to be paid upon the annuitant's death, usually equal to the larger of the annuitant's account value or the amount of net deposits. Some contractholders also have riders that provide enhanced death benefits. Assuming every annuitant died on December 31, 2016, as of that date, contracts with death benefit features not covered by reinsurance had an account value of \$4,975 million and a related death benefit exposure, or net amount at risk, of \$161 million.

Some of our variable annuity products provide the contractholder with a guaranteed minimum income stream that they cannot outlive, along with an opportunity to participate in market appreciation.

We no longer offer retail and group variable annuities or variable life insurance products; however, we continue to service our existing block of business which could include additional deposits on existing annuity contracts.

### *Institutional*

Our institutional products consist of funding agreements, FABNs and GICs, which are deposit-type products that pay a guaranteed return to the contractholder on specified dates. We explore periodic issuance of our institutional products for asset-liability management purposes.

### *Corporate-owned life insurance*

We no longer offer our corporate-owned life insurance product; however, we continue to manage our existing block of business.

### *Other accident and health insurance*

Our other accident and health insurance includes Medicare supplement insurance reinsured to a third party, and certain disability, accident and health insurance that we no longer sell but continue to manage our existing block of business.

## **Corporate and Other Activities**

Our Corporate and Other activities 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 our operating segments, including discontinued operations. We have a presence in the private mortgage insurance market in Mexico and maintain a license in Korea with a small portfolio currently in runoff. We are also a minority shareholder of a joint venture partnership in India that offers mortgage guarantees against borrower defaults on housing loans from mortgage lenders in India. The financial impact of this joint venture was minimal during 2016, 2015 and 2014.

Corporate and Other activities also previously included our mortgage insurance businesses in Europe. On May 9, 2016, Genworth Mortgage Insurance Corporation ( GMICO ) completed the sale of our European

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mortgage insurance business to AmTrust Financial Services, Inc. and received net proceeds of approximately \$50 million. See note 24 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information.

On December 1, 2015, we sold our lifestyle protection insurance business to AXA for approximately \$493 million. This business was accounted for as discontinued operations and its financial position, results of operations and cash flows were separately reported for all periods presented. We received net proceeds of approximately \$400 million from the sale. See note 24 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information.

Selected financial information and operating performance measures regarding our Corporate and Other activities are included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Corporate and Other activities.

## **International Operations**

Our total revenues attributed to international operations for the years ended December 31, 2016, 2015 and 2014 were approximately \$1.1 billion, \$1.1 billion and \$1.2 billion, respectively. More information regarding our international operations and revenue in our largest countries is presented in note 19 to the consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

## **Risk Management**

Risk management is a critical part of our business. We have an enterprise risk management framework that includes risk management processes relating to economic capital analysis, product development, product pricing and management of in-force business, credit risk management, asset-liability management, liquidity management, investment activities, portfolio diversification, underwriting and risk and loss mitigation, financial databases and information systems, business dispositions, and operational capabilities. The risk management framework includes an assessment and implementation of company and business risk appetites, the identification and assessment of risks, a proactive decision process to determine which risks are acceptable to be retained, based on risk and reward considerations, limit setting on major risks, emerging risk identification and the ongoing monitoring, reporting and management of risks. We adhere to risk management disciplines and aim to leverage these efforts into a competitive advantage in distribution and management of our products.

As part of our evaluation of in-force product performance, new product initiatives and risk mitigation alternatives, we monitor regulatory and rating agency capital models as well as internal economic capital models to determine the appropriate level of risk-adjusted capital. We utilize our internal economic capital model to assess the risk of loss to our capital resources based upon the portfolio of risks we underwrite and retain and upon our asset and operational risk profiles. Our commitment to risk management involves the ongoing review and expansion of internal risk management capabilities with a focus on utilizing top talent, improved infrastructure and modeling.

## ***Product development and management***

Our risk management process begins with the development and introduction of new products and services. We have established a product development process that specifies a series of required analyses, reviews and approvals for any new product. For each proposed product, this process includes a review of the market opportunity and competitive landscape, major pricing assumptions and methodologies, return expectations and variability of returns, sensitivity analysis, asset-liability management, reinsurance and other risk mitigating strategies, underwriting criteria, legal,

compliance and business risks and potential mitigating actions. Before we introduce a new product, we establish a monitoring program with specific performance targets and leading

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indicators, which we monitor frequently to identify any deviations from expected performance so that we can take corrective action when necessary. Significant product introductions, measured either by volume, level or type of risk, require approval by our senior management team at either the business or enterprise level.

We use a similar process to introduce changes to existing products and to offer existing products in new markets and through new distribution channels. Product performance reviews include an analysis of the major drivers of profitability, underwriting performance and variations from expected results including an in-depth experience analysis of the product's major risk factors. Other areas of focus include the regulatory and competitive environments and other emerging factors that may affect product performance.

In addition, we initiate special reviews when a product's performance fails to meet the indicators we established during that product's introductory review process for subsequent reviews of in-force blocks of business. If a product does not meet our performance criteria, we consider adjustments in pricing, design and marketing or ultimately discontinuing sales of that product. We review our underwriting, pricing, distribution and risk selection strategies on a regular basis in an effort to ensure that our products remain competitive and consistent with our marketing and profitability objectives. For example, in our mortgage insurance businesses, we review the profitability of lender accounts to assess whether our business with these lenders is achieving anticipated performance levels and to identify trends requiring remedial action, including changes to underwriting guidelines, product mix or other customer performance.

### ***Asset-liability management***

We maintain segmented investment portfolios for the majority of our product lines. This enables us to perform an ongoing analysis of the interest rate, credit, foreign exchange, equity, volatility and liquidity risks associated with each major product line, in addition to credit risks for our overall enterprise versus approved limits. We analyze the behavior of our liability cash flows across a wide variety of scenarios, reflecting policy features and expected policyholder behavior. We also analyze the cash flows of our asset portfolios across the same scenarios. We believe this analysis shows the sensitivity of both our assets and liabilities to changes in economic environments and enables us to manage our assets and liabilities more effectively. In addition, we deploy hedging programs to mitigate certain economic risks associated with our assets, liabilities and capital. For example, we partially hedge the equity, interest rate and market volatility risks in our variable annuity products, as well as interest rate risks in our long-term care insurance products.

### ***Liquidity management***

We monitor the cash and highly marketable investment positions in each of our operating companies against operating targets that are designed to ensure that we will have the cash necessary to meet our obligations as they come due. The targets are set based on stress scenarios that have the effect of increasing our expected cash outflows and decreasing our expected cash inflows. In addition, we monitor the ability of our operating companies to provide the dividends needed to meet the cash needs of our holding companies and analyze the impact of reduced dividend levels under stress scenarios.

### ***Portfolio diversification and investments***

We use new business and in-force product limits to manage our risk concentrations and to manage product, business level, geographic and other risk exposures. We manage unique product exposures in our business segments. For example, in managing our mortgage insurance risk exposure, we monitor geographic concentrations in our portfolio and the condition of housing markets in each major area in the countries in which we operate. We also monitor fundamental price indicators and factors that affect home prices and their affordability at the national and regional



levels.

In addition, our assets are managed within limitations to control credit risk and to avoid excessive concentration in our investment portfolio using defined investment and concentration guidelines that help ensure

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disciplined underwriting and oversight standards. We seek diversification in our investment portfolio by investing in multiple asset classes and limiting size of exposures. The portfolios are tailored to match the cash flow characteristics of our liabilities, and actively monitoring exposures, changes in credit characteristics and shifts in markets.

We utilize surveillance and quantitative credit risk analytics to identify concentrations and drive diversification of portfolio risks with respect to issuer, sector, rating and geographic concentration. Issuer credit limits for the investment portfolios of each of our businesses (based on business capital, portfolio size and relative issuer cumulative default risk) govern and control credit concentrations in our portfolio. Derivatives counterparty risk and credit derivatives are integrated into issuer limits as well. We also limit and actively monitor country and sovereign exposures in our global portfolio and evaluate and adjust our risk profiles, where needed, in response to geopolitical and economic developments in the relevant areas.

### ***Underwriting and risk and loss mitigation***

Underwriting guidelines for all products are routinely reviewed and adjusted as necessary with the aim at providing policyholders with the appropriate premium and benefit structure. We seek external reviews from the reinsurance and consulting communities and to utilize their experience to calibrate our risk taking to expected outcomes.

Our risk and loss mitigation activities include ensuring that new policies are issued based on accurate information that we receive and that policy benefit payments are paid in accordance with the policy contract terms.

### ***Financial databases and information systems***

Our financial databases and information systems technology are important tools in our risk management. For example, we believe we have the largest database for long-term care insurance claims with over 40 years of experience in offering those products. We also have substantial experience in offering individual life insurance products with a large database of claims experience. We have extensive data on the performance of mortgage originations in the United States and other major markets we operate in which we use to assess the drivers and distributions of delinquency and claims experience.

We use technology, in some cases proprietary technology, to manage variations in our underwriting process. For example, in our mortgage insurance businesses, we use borrower credit bureau information, proprietary mortgage scoring models and/or our extensive database of mortgage insurance experience along with external data including rating agency data to evaluate new products and portfolio performance. In the United States and Canada, our proprietary mortgage scoring models use the borrower's credit score and additional data concerning the borrower, the loan and the property, including loan-to-value ratio, loan type, loan amount, property type, occupancy status and borrower employment to predict the likelihood of having to pay a claim. In addition, our models take into consideration macroeconomic variables such as unemployment, interest rate and home price changes. We believe assessing housing market and mortgage loan attributes across a range of economic outcomes enhances our ability to manage and price for risk. We perform portfolio analysis on an ongoing basis to determine if modifications are required to our product offerings, underwriting guidelines or premium rates.

We rely extensively on complex models to calculate the value of assets and liabilities (including reserves), capital levels and other financial metrics, as well as for other purposes. We have a model risk management framework in place that is designed to ensure appropriate governance of model risk. Independent model validation teams assess on a systematic basis the appropriate use of models, taking into account the risks associated with assumptions, algorithms and process controls supporting the use of the models. See Item 1A Risk Factors. If the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.



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### ***Business dispositions***

When we consider a disposition of a block or book of business or entity, we use various business, financial and risk management disciplines to evaluate the merits of the proposals and assess its strategic fit with our current business model. We have a review process that includes a series of required analyses, reviews and approvals similar to those employed for new product introductions.

### ***Operational capabilities***

We have risk management programs in place to review the continued operation of our businesses in the event of loss or other adverse consequences on business outcomes resulting from inadequate or failed internal processes, people and systems or from external events. We provide risk assessments, together with control reviews, to provide an indication as to how the risks need to be managed. Significant events impacting our businesses are assessed in terms of their impact on our risk profile. Controls are used to mitigate the likelihood of a risk occurring or minimizing the consequence of the risk if it did occur. Investigative teams are maintained in our various locations to address potential operational risk incidents from both internal and external sources.

## **Operations and Technology**

### ***Service and support***

In our mortgage insurance businesses, we have introduced technology enabled services to help our customers (lenders and servicers) as well as our consumers (borrowers and homeowners). Technology advancements have allowed us to reduce application approval turn-times, error rates and enhance our customers' ease of doing business with us. Through our secure internet-enabled information systems and data warehouses, servicers can transact business with us in a timely manner. In the United States, proprietary, decision models have helped generate loss mitigation strategies for distressed borrowers. Our models use information from various third-party sources, such as consumer credit agencies, to indicate borrower willingness and capacity to fulfill debt obligations. Identification of specific borrower groups that are likely to work their loans out allows us to create custom outreach strategies to achieve a favorable loss mitigation outcome.

In our U.S. life insurance businesses, we interact directly with our independent sales intermediaries through secure websites that have enabled them to transact business with us electronically.

### ***Operating centers***

We have established scalable, low-cost operating centers in Virginia and North Carolina. In addition, through an arrangement with an outsourcing provider, we have a substantial team of professionals in India who provide a variety of services to us, including data entry, transaction processing and functional support to our insurance operations.

## **Reinsurance**

We reinsure a portion of our annuity, life insurance, long-term care insurance and mortgage insurance with unaffiliated reinsurers. In a reinsurance transaction, a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. We participate in reinsurance activities in order to minimize exposure to significant risks, limit losses, and provide additional capacity for future growth. We also obtain reinsurance to meet certain capital requirements, including sometimes utilizing intercompany reinsurance agreements to manage our statutory capital positions. However, these intercompany agreements do not have an effect

on our consolidated U.S. GAAP financial statements.

We enter into various agreements with reinsurers that cover individual risks, group risks or defined blocks of business, primarily on a coinsurance, yearly renewable term, excess of loss or catastrophe excess basis. These

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reinsurance agreements spread risk and minimize the effect of losses. For example, in addition to reinsuring mortality risk on our life insurance products, we are coinsuring approximately 20% of all our long-term care insurance sales. The extent of each risk retained by us depends on our evaluation of the specific risk, subject, in certain circumstances, to maximum retention limits based on the characteristics of coverages.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded amount in the event a claim is paid. Cessions under reinsurance agreements do not discharge our obligations as the primary insurer. In the event that reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible. Our amounts recoverable from reinsurers represent receivables from and/or reserves ceded to reinsurers. The amounts recoverable from reinsurers were \$17.8 billion and \$17.2 billion as of December 31, 2016 and 2015, respectively.

We focus on obtaining reinsurance from a diverse group of reinsurers. We regularly evaluate the financial condition of our reinsurers and monitor concentration risk with our reinsurers at least annually. Our U.S. life insurance subsidiaries have established standards and criteria for our use and selection of reinsurers. In order for a new reinsurer to participate in our current program, without collateralization, we require the reinsurer to have an Standard & Poor's Financial Services, LLC's (S&P) rating of A- or better or a Moody's Investors Service, Inc. (Moody's) rating of A- or better and a minimum capital and surplus level of \$350 million. If the reinsurer does not have these ratings, we generally require them to post collateral as described below. In addition, we may require collateral from a reinsurer to mitigate credit/collectability risk. Typically, in such cases, the reinsurer must either maintain minimum specified ratings and RBC ratios or provide the specified quality and quantity of collateral. Similarly, we have also required collateral in connection with books of business sold pursuant to indemnity reinsurance agreements. We have been required to post collateral when purchasing books of business.

Reinsurers that are not licensed, accredited or authorized in the state of domicile of the reinsured (ceding company) are required to post statutorily prescribed forms of collateral for the ceding company to receive reinsurance credit. The three primary forms of collateral are: (i) qualifying assets held in a reserve credit trust; (ii) irrevocable, unconditional, evergreen letters of credit issued by a qualified U.S. financial institution; and (iii) assets held by the ceding company in a segregated funds withheld account. Collateral must be maintained in accordance with the rules of the ceding company's state of domicile and must be readily accessible by the ceding company to cover claims under the reinsurance agreement. Accordingly, our U.S. life insurance subsidiaries require unauthorized reinsurers that are not so licensed, accredited or authorized to post acceptable forms of collateral to support their reinsurance obligations to us.

The following table sets forth our exposure to our principal reinsurers in our U.S. life insurance subsidiaries as of December 31, 2016:

<b>(Amounts in millions)</b>	<b>Reinsurance recoverable</b>
UFLIC <sup>(1)</sup>	\$ 14,437
RGA Reinsurance Company	1,116
Munich American Reassurance Company	639
Riversource Life Insurance Company <sup>(2)</sup>	506
General Re Life Corporation	395

- (1) We have several significant reinsurance transactions with Union Fidelity Life Insurance Company ( UFLIC ), an affiliate of our former parent, General Electric Company ( GE ), which results in a significant concentration of reinsurance risk. UFLIC 's obligations to us are secured by trust accounts. See note 8 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data.
- (2) Our reinsurance arrangement with Riversource Life Insurance Company covers a runoff block of single premium term life insurance policies.

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We reinsure a portion of our U.S. mortgage insurance risk in order to obtain credit towards the private mortgage insurer eligibility requirements ( PMIERS ) capital requirements. The reinsurance transaction covering our 2016 and 2017 book years and the three reinsurance transactions executed during 2015 covering our 2009 through 2015 book years provided an aggregate of approximately \$530 million of PMIERS capital credit as of December 31, 2016. The reinsurance coverage is provided by a panel of reinsurance partners each currently rated A- or better by S&P or A.M. Best Company, Inc. ( A.M Best ). The transactions are structured as excess of loss coverage where both the attachment and detachment points of the ceded risk tier are within the PMIERS capital requirements at inception. Each reinsurance treaty has a term of 10 years and grant to Genworth a unilateral right to commute prior to the full term, subject to certain performance triggers.

In our mortgage insurance business in Australia, all of the reinsurance treaties are on an excess of loss basis that are designed to attach only under stress loss events and are renewable (with the agreement of both us and the relevant reinsurers) on a periodic basis. As of December 31, 2016, our Australian mortgage insurance business had six portfolio excess of loss reinsurance treaties with an aggregate coverage limit of AUD\$900 million. As of January 1, 2017, our Australian mortgage insurance business had seven excess of loss treaties with an aggregate coverage limit to AUD\$950 million. This coverage is provided by approximately 20 reinsurance partners, each currently rated A or better by S&P and/or A.M. Best. All of the treaties qualify for full capital credit offset within APRA s regulatory capital requirements and have a two to four year base term with options to extend for three to six years.

For additional information related to reinsurance, see note 8 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data.

**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.

As of February 27, 2017, our principal mortgage insurance subsidiaries were rated in terms of financial strength by S&P, Moody s and Dominion Bond Rating Service ( DBRS ) as follows:

<b>Company</b>	<b>S&amp;P rating</b>	<b>Moody s rating</b>	<b>DBRS rating</b>
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) <sup>(1)</sup>	A+ (Strong)	A3 (Good)	Not rated

<sup>(1)</sup> Also rated A+ by Fitch Ratings ( Fitch ).

As of February 27, 2017, our principal life insurance subsidiaries were rated in terms of financial strength by S&P, Moody s and A.M. Best as follows:



<b>Company</b>	<b>S&amp;P rating</b>	<b>Moody s rating</b>	<b>A.M. Best rating</b>
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.

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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 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 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

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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 information on adverse credit rating actions related to Genworth Holdings, 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.

## **Investments**

### ***Organization***

Our investment department includes asset management, portfolio management, derivatives, risk management, operations, accounting and other functions. Under the direction of our Chief Investment Officer, it is responsible for managing the assets in our various portfolios, including establishing investment and derivatives policies and strategies, reviewing asset-liability management, performing asset allocation for our domestic subsidiaries and coordinating investment activities with our international subsidiaries.

We use both internal and external asset managers to take advantage of expertise in particular asset classes or to leverage country-specific investing capabilities. We internally manage certain asset classes for our domestic insurance operations, including public government, municipal and corporate securities, structured securities, commercial mortgage loans, privately placed debt securities and derivatives. We utilize external asset managers for most of our international portfolios, as well as select asset classes. Management of investments for our international operations is overseen by the investment committees reporting to the boards of directors of the applicable non-U.S. legal entities in consultation with our Chief Investment Officer. The majority of the assets in our Canadian and Australian mortgage insurance businesses are managed by unaffiliated investment managers located in their respective countries. As of December 31, 2016 and 2015, approximately 10% and 9%, respectively, of our invested assets were held by our international businesses and were invested primarily in non-U.S.-denominated securities.

We manage our assets to meet diversification, credit quality, yield and liquidity requirements of our policy and contract liabilities by investing primarily in fixed maturity securities, including government, municipal and corporate bonds and mortgage-backed and other asset-backed securities. We also hold mortgage loans on commercial real estate and other invested assets, which include derivatives, trading securities, limited partnerships and short-term investments. Investments for our particular insurance company subsidiaries are required to comply with our risk management requirements, as well as applicable laws and insurance regulations.

For a discussion of our investments, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Balance Sheets.

Our primary investment objective is to meet our obligations to policyholders and contractholders while increasing value to our stockholders by investing in a diversified, high quality portfolio, comprised primarily of income

producing securities and other assets. Our investment strategy focuses on:

managing interest rate risk, as appropriate, through monitoring asset durations relative to policyholder and contractholder obligations;

selecting assets based on fundamental, research-driven strategies;

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emphasizing fixed-income, low-volatility assets while pursuing active strategies to enhance yield;

maintaining sufficient liquidity to meet unexpected financial obligations;

regularly evaluating our asset class mix and pursuing additional investment classes when prudent; and

continuously monitoring asset quality and market conditions that could affect our assets.

We are exposed to two primary sources of investment risk:

credit risk relating to the uncertainty associated with the continued ability of a given issuer to make timely payments of principal and interest and

interest rate risk relating to the market price and cash flow variability associated with changes in market interest rates.

We manage credit risk by analyzing issuers, transaction structures and any associated collateral. We continually evaluate the probability of credit default and estimated loss in the event of such a default, which provides us with early notification of worsening credits. We also manage credit risk through industry and issuer diversification and asset allocation practices. For commercial mortgage loans, we manage credit risk through property type, geographic region and product type diversification and asset allocation.

We manage interest rate risk by monitoring the relationship between the duration of our assets and the duration of our liabilities, seeking to manage interest rate risk in both rising and falling interest rate environments, and utilizing various derivative strategies, where appropriate and available. For further information on our management of interest rate risk, see Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk.

***Fixed maturity securities***

Fixed maturity securities, which were primarily classified as available-for-sale, including tax-exempt bonds, consisted principally of publicly traded and privately placed debt securities, and represented 82% and 78%, respectively, of total cash, cash equivalents and invested assets as of December 31, 2016 and 2015.

We invest in privately placed fixed maturity securities to increase diversification and obtain higher yields than can ordinarily be obtained with comparable public market securities. Generally, private placements provide us with protective covenants, call protection features and, where applicable, a higher level of collateral. However, our private placements are not as freely transferable as public securities because of restrictions imposed by federal and state securities laws, the terms of the securities and the characteristics of the private market.

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The following table presents our public, private and total fixed maturity securities by the Nationally Recognized Statistical Rating Organizations ( NRSRO ) designations and/or equivalent ratings, as well as the percentage, based upon fair value that each designation comprises. Certain fixed maturity securities that are not rated by an NRSRO are shown based upon internally prepared credit evaluations.

(Amounts in millions)	December 31,					
	2016		% of total	2015		% of total
NRSRO designation	Amortized cost	Fair value		Amortized cost	Fair value	
<b>Public fixed maturity securities</b>						
AAA	\$ 13,254	\$ 14,264	32%	\$ 13,513	\$ 14,785	34%
AA	4,086	4,283	9	3,904	4,121	10
A	11,544	12,659	28	11,152	12,155	28
BBB	11,603	12,380	28	10,386	10,720	25
BB	1,256	1,334	3	1,240	1,200	3
B	154	151		72	63	
CCC and lower	50	60		82	92	
Total public fixed maturity securities	\$ 41,947	\$ 45,131	100%	\$ 40,349	\$ 43,136	100%
<b>Private fixed maturity securities</b>						
AAA	\$ 1,623	\$ 1,661	11%	\$ 1,479	\$ 1,531	10%
AA	1,911	1,970	13	1,844	1,899	13
A	4,579	4,719	30	4,578	4,731	31
BBB	6,133	6,265	41	5,951	6,003	40
BB	760	763	5	828	777	5
B	52	51		118	104	1
CCC and lower	9	12		14	16	
Total private fixed maturity securities	\$ 15,067	\$ 15,441	100%	\$ 14,812	\$ 15,061	100%
<b>Total fixed maturity securities</b>						
AAA	\$ 14,877	\$ 15,925	26%	\$ 14,992	\$ 16,316	28%
AA	5,997	6,253	10	5,748	6,020	11
A	16,123	17,378	29	15,730	16,886	29
BBB	17,736	18,645	31	16,337	16,723	29
BB	2,016	2,097	4	2,068	1,977	3
B	206	202		190	167	
CCC and lower	59	72		96	108	
Total fixed maturity securities	\$ 57,014	\$ 60,572	100%	\$ 55,161	\$ 58,197	100%

Based upon fair value, public fixed maturity securities represented 75% and 74%, respectively, of total fixed maturity securities as of December 31, 2016 and 2015. Private fixed maturity securities represented 25% and 26%, respectively, of total fixed maturity securities as of December 31, 2016 and 2015.

We diversify our corporate securities by industry and issuer. As of December 31, 2016, our combined holdings in the 10 corporate issuers to which we had the greatest exposure were \$2.3 billion, which was approximately 3% of our total cash, cash equivalents and invested assets. The exposure to the largest single corporate issuer held as of December 31, 2016 was \$294 million, which was less than 1% of our total cash, cash equivalents and invested assets. See note 4 to our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information on diversification by sector.

We do not have material unhedged exposure to foreign currency risk in our invested assets of our U.S. operations. In our international insurance operations, both our assets and liabilities are generally denominated in local currencies.



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Further analysis related to our investments portfolio as of December 31, 2016 and 2015 is included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Investment and Derivative Instruments.

### ***Commercial mortgage loans and other invested assets***

Our mortgage loans are collateralized by commercial properties, including multi-family residential buildings. Commercial mortgage loans are primarily stated at principal amounts outstanding, net of deferred expenses and allowance for loan loss. We diversify our commercial mortgage loans by both property type and geographic region. See note 4 to our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information on distribution across property type and geographic region for commercial mortgage loans, as well as information on our interest in equity securities and other invested assets.

Selected financial information regarding our other invested assets and derivative instruments as of December 31, 2016 and 2015 is included under Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Investment and Derivative Instruments.

## **Regulation**

Our businesses are subject to extensive regulation and supervision.

### ***General***

Our insurance operations are subject to a wide variety of laws and regulations. State insurance laws and regulations ( Insurance Laws ) regulate most aspects of our U.S. insurance businesses, and our U.S. insurers are regulated by the insurance departments of the states in which they are domiciled and licensed. Our non-U.S. insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are domiciled. Our insurance products and businesses also are affected by U.S. federal, state and local tax laws, and the tax laws of non-U.S. jurisdictions. Our securities operations, including our insurance products that are regulated as securities, such as variable annuities and variable life insurance, also are subject to U.S. federal and state and non-U.S. securities laws and regulations. The U.S. Securities and Exchange Commission ( SEC ), the Financial Industry Regulatory Authority ( FINRA ), state securities authorities and similar non-U.S. authorities regulate and supervise these products.

The primary purpose of the Insurance Laws regulating our insurance businesses and their equivalents in the other countries in which we operate, and the securities laws affecting our variable annuity products, variable life insurance products, registered FABNs and our broker/dealer, is to protect our policyholders, contractholders and clients, not our stockholders. These laws and regulations are regularly re-examined and any changes to these laws or new laws may be more restrictive or otherwise adversely affect our operations.

Insurance and securities regulatory authorities (including state law enforcement agencies and attorneys general or their non-U.S. equivalents) periodically make inquiries regarding compliance with insurance, securities and other laws and regulations, and we cooperate with such inquiries and take corrective action when warranted.

Our distributors and institutional customers also operate in regulated environments. Changes in the regulations that affect their operations may affect our business relationships with them and their decision to distribute or purchase our subsidiaries' products.

In addition, the Insurance Laws of our U.S. insurers' domiciliary jurisdictions and the equivalent laws in Australia, Canada and certain other jurisdictions in which we operate require that a person obtain the approval of

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the applicable insurance regulator prior to acquiring control, and in some cases prior to divesting its control, of an insurer. These laws may discourage potential acquisition proposals and may delay, deter or prevent an investment in or a change of control involving us, or one or more of our regulated subsidiaries, including transactions that our management and some or all of our stockholders might consider desirable.

***U.S. Insurance Regulation***

Our U.S. insurers are licensed and regulated in all jurisdictions in which they conduct insurance business. The extent of this regulation varies, but Insurance Laws generally govern the financial condition of insurers, including standards of solvency, types and concentrations of permissible investments, establishment and maintenance of reserves, credit for reinsurance and requirements of capital adequacy, and the business conduct of insurers, including marketing and sales practices and claims handling. In addition, Insurance Laws usually require the licensing of insurers and agents, and the approval of policy forms, related materials and the rates for certain lines of insurance. For example, in most states where our U.S. mortgage insurance subsidiaries are licensed, we are required to file rates before we are authorized to charge premiums. In some states, these rates must be approved before their use. Likewise, changes in rates must be filed and receive approval. In general, states may require actuarial justification on the basis of the insurer's loss experience, expenses and future projections. In addition, states may consider general default experience in the U.S. mortgage insurance industry in assessing the premium rates charged by U.S. mortgage insurers.

The Insurance Laws applicable to us or our U.S. insurers are described below. Our U.S. mortgage insurers are also subject to additional Insurance Laws applicable specifically to mortgage insurers discussed below under Mortgage Insurance.

***Insurance holding company regulation***

All U.S. jurisdictions in which our U.S. insurers conduct business have enacted legislation requiring each U.S. insurer (except captive insurers) in a holding company system to register with the insurance regulatory authority of its domiciliary jurisdiction and furnish that regulatory authority various information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management or financial condition of the insurers within the system. These Insurance Laws regulate transactions between insurers and their affiliates, sometimes mandating prior notice to the regulator and/or regulatory approval. Generally, these Insurance Laws require that all transactions between an insurer and an affiliate be fair and reasonable, and that the insurer's statutory surplus following such transaction be reasonable in relation to its outstanding liabilities and adequate to its financial needs.

Our U.S. subsidiary insurers' payment of dividends or other distributions to our holding company is regulated by the Insurance Laws of their respective domiciliary states, and insurers may not pay an extraordinary dividend or distribution, or pay a dividend except out of earned surplus, without prior regulatory approval. In general, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater (or, in some jurisdictions, the lesser) of:

10% of the insurer's statutory surplus as of the immediately prior year end or

the statutory net gain from the insurer's operations (if a life insurer) or the statutory net income (loss) (if not a life insurer) during the prior calendar year.

In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurers (such as a payment under a tax sharing agreement or for employment or other services) if they determine that such payment could be adverse to our policyholders or contractholders.

The Insurance Laws require that a person obtain the approval of the insurance commissioner of an insurer's domiciliary jurisdiction prior to acquiring control of such insurer. Control of an insurer is generally presumed to

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exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the insurer or its ultimate parent entity. In considering an application to acquire control of an insurer, the insurance commissioner generally considers factors such as the experience, competence and financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquirer's plans for the management and operation of the insurer, and any anti-competitive results that may arise from the acquisition. Most states now require a person seeking to acquire control of an insurer licensed but not domiciled in that state to make a filing prior to completing an acquisition if the acquirer and its affiliates and the target insurer and its affiliates have specified market shares in the same lines of insurance in that state. These provisions may not require acquisition approval but can lead to imposition of conditions on an acquisition that could delay or prevent its consummation.

The Insurance Laws require that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an enterprise risk report that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. The Insurance Laws also require that a controlling person of an insurer submit prior notice to the insurer's domiciliary insurance regulator of a divestiture of control. Finally, most states have adopted insurance regulations setting forth detailed requirements for cost sharing and management agreements between an insurer and its affiliates.

The National Association of Insurance Commissioners (the NAIC) adopted the Risk Management and Own Risk and Solvency Assessment Model Act (the ORSA Model Act). The ORSA Model Act requires an insurance holding company system's Chief Risk Officer to submit annually to its lead state insurance regulator an Own Risk and Solvency Assessment (ORSA) Summary Report. The ORSA is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. Most states have adopted the ORSA Model Act. Under ORSA, we are required to:

regularly, no less than annually, conduct an ORSA to assess the adequacy of our risk management framework, and current and estimated projected future solvency position;

internally document the process and results of the assessment; and

provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and make such report available, upon request, to other domiciliary state regulators within the holding company group.

The NAIC has adopted several model laws and regulations as part of its Solvency Modernization Initiative. In November 2014, the NAIC adopted the Corporate Governance Annual Disclosure Model Act and the Corporate Governance Annual Disclosure Model Regulation (the Corporate Governance Model Act and Regulation), which would require insurers to disclose detailed information regarding their governance practices. To date, the Corporate Governance Model Act and Regulation have been adopted in approximately 10 states, but not in any of the states where our insurance subsidiaries are domiciled. In December 2014, the NAIC adopted amendments to the insurance holding company model act and regulations (the 2014 NAIC Amendments), which would authorize U.S. regulators to, among other items, lead or participate in the group-wide supervision of certain international insurance groups. The 2014 NAIC Amendments must be adopted by individual state legislatures in order to be effective in a particular state.

To date, the 2014 amendments to the Insurance Holding Company System Regulatory Act (as opposed to the corresponding regulation) have been adopted in Delaware, but not in Virginia or New York.

During 2014, the NAIC also approved a new regulatory framework applicable to the use of captive insurers in connection with Regulation XXX and Regulation AXXX transactions. Among other things, the framework

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called for more disclosure of an insurer's use of captives in its statutory financial statements, and narrows the types of assets permitted to back statutory reserves that are required to support the insurer's future obligations. In 2014, the NAIC implemented the framework through an actuarial guideline ( AG 48 ), which requires the actuary of the ceding insurer that opines on the insurer's reserves to issue a qualified opinion if the framework is not followed. The requirements of AG 48 became effective as of January 1, 2015 in all states, without any further action necessary by state legislatures or insurance regulators to implement it, other than to refer to the revised NAIC Accounting Practices and Procedures Manual, which included the new requirements of AG 48. In December 2016, the NAIC adopted a revised version of AG 48 ( Updated AG 48 ), with revisions applicable to new policies issued and new reinsurance transactions entered into on or after January 1, 2017. AG 48 and Updated AG 48 do not affect reinsurance arrangements that were pre-existing as of January 1, 2015, and the changes set forth in Updated AG 48 do not affect reinsurance arrangements that were pre-existing as of January 1, 2017. In December 2016, the NAIC also adopted the Term and Universal Life Insurance Reserve Financing Model Regulation, which will apply when formally adopted by the states. There are differences between AG 48 and the Term and Universal Life Insurance Reserve Financing Model Regulation, and it is not clear what additional changes or state variations may emerge as the states adopt this model regulation.

We cannot predict the future impact, if any, that the 2014 NAIC Amendments, compliance with the ORSA Model Act, the requirements of AG 48, Updated AG 48, the XXX/XXX model regulation and the Corporate Governance Model Act and Regulation will have on our business, financial condition or results of operations.

### ***Periodic reporting***

Our U.S. insurers must file reports, including detailed annual financial statements, with insurance regulatory authorities in each jurisdiction in which they do business, and their operations and accounts are subject to periodic examination by such authorities.

### ***Policy forms***

Our U.S. insurers' policy forms are subject to regulation in every U.S. jurisdiction in which they transact insurance business. In most U.S. jurisdictions, policy forms must be filed prior to their use, and in some U.S. jurisdictions, forms must be approved by insurance regulatory authorities prior to use.

### ***Market conduct regulation***

The Insurance Laws of U.S. jurisdictions govern the marketplace activities of insurers, affecting the form and content of disclosure to consumers, product illustrations, advertising, product replacement, sales and underwriting practices, and complaint and claims handling, and these provisions are generally enforced through periodic market conduct examinations.

### ***Statutory examinations***

Insurance departments in U.S. jurisdictions conduct periodic detailed examinations of the books, records, accounts and business practices of domestic insurers. These examinations generally are conducted in cooperation with insurance departments of two or three other states or jurisdictions representing each of the NAIC zones, under guidelines promulgated by the NAIC.

### ***Guaranty associations and similar arrangements***

Most jurisdictions in which our U.S. insurers are licensed require those insurers to participate in guaranty associations which pay contractual benefits owed under the policies of impaired or insolvent insurers. These associations levy assessments, up to prescribed limits, on each member insurer in a jurisdiction on the basis of the proportionate share of the premiums written by such insurer in the lines of business in which the impaired,



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insolvent or failed insurer is engaged. Some jurisdictions permit member insurers to recover assessments paid through full or partial premium tax offsets. Aggregate assessments levied against our U.S. insurers were not material to our consolidated financial statements for the years ended December 31, 2016, 2015 or 2014. See U.S. Life Insurance segment Trends and conditions for more details.

***Policy and contract reserve sufficiency analysis***

The Insurance Laws of their domiciliary jurisdictions require our U.S. life insurers to conduct annual analyses of the sufficiency of their life and health insurance and annuity reserves. Other jurisdictions where insurers are licensed may have certain reserve requirements that differ from those of their domiciliary jurisdictions. In each case, a qualified actuary must submit an opinion stating that the aggregate statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the insurer's associated contractual obligations and related expenses. If such an opinion cannot be provided, the insurer must establish additional reserves by transferring funds from surplus. Our U.S. life insurers submit these opinions annually to their insurance regulatory authorities. We annually conduct a statutory cash flow testing process to support our opinions. Different reserve requirements exist for our U.S. mortgage insurance subsidiaries. See Mortgage Insurance Regulation State regulation Reserves.

***Surplus and capital requirements***

Insurance regulators have the discretionary authority, in connection with maintaining the licensing of our U.S. insurers, to limit or restrict insurers from issuing new policies, or policies having a dollar value over certain thresholds, if, in the regulators' judgment, the insurer is not maintaining a sufficient amount of surplus or is in a hazardous financial condition. We seek to maintain new business and capital management strategies to support meeting related regulatory requirements.

***Risk-based capital***

The NAIC has established RBC standards for U.S. life insurers, as well as a risk-based capital model act (RBC Model Act). All 50 states and the District of Columbia have adopted the RBC Model Act or a substantially similar law or regulation. The RBC Model Act requires that life insurers annually submit a report to state regulators regarding their RBC based upon four categories of risk: asset risk, insurance risk, interest rate and market risk, and business risk. The capital requirement for each is generally determined by applying factors which vary based upon the degree of risk to various asset, premium and reserve items. The formula is an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

If an insurer's RBC fell below specified levels, it would be subject to different degrees of regulatory action depending upon the level, ranging from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control. As of December 31, 2016, the RBC of each of our U.S. life insurance subsidiaries exceeded the level of RBC that would require any of them to take or become subject to any corrective action. The consolidated RBC ratio of our U.S. domiciled life insurance subsidiaries was approximately 329% as of December 31, 2016 and 372% as of December 31, 2015 as re-presented for the merger of BLAIC with and into GLIC (see note 18 in Part II Item 8 Financial Statements and Supplementary Data for additional information). The RBC ratio for the year ended December 31, 2016 was primarily impacted by higher claim reserves as a result of our annual claims assumption review in our long-term care insurance products and additional AG 38 reserves in our life insurance products in 2016.

***Group capital***

The NAIC and international insurance regulators, including the International Association of Insurance Supervisors ( IAIS ), are working to develop group capital standards. The NAIC is developing a group capital

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measure, which is expected to be based on aggregation of existing regulatory capital calculations for all entities within the insurance holding company system (such as risk-based capital for insurance companies). It is unclear how the development of group capital measures by the NAIC will interact with existing capital requirements for insurance companies in the United States and with international capital standards. It is possible that we may be required to hold additional capital as a result of these developments.

### ***Statutory accounting principles***

U.S. insurance regulators developed statutory accounting principles ( SAP ) as a basis of accounting used to monitor and regulate the solvency of insurers. Since insurance regulators are primarily concerned with ensuring an insurer's ability to pay its current and future obligations to policyholders, statutory accounting conservatively values the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary jurisdiction. Uniform statutory accounting practices are established by the NAIC and are generally adopted by regulators in the various U.S. jurisdictions.

Due to differences in methodology between SAP and U.S. GAAP, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with U.S. GAAP are materially different from those reflected in financial statements prepared under SAP.

### ***Regulation of investments***

Each of our U.S. insurers is subject to Insurance Laws that require diversification of its investment portfolio and which limit the proportion of investments in different asset categories. Assets invested contrary to such regulatory limitations must be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, regulations require divestiture of such non-complying investments. We believe the investments made by our U.S. insurers comply with these Insurance Laws.

### ***Federal regulation of insurance products***

Most of our variable annuity products, some of our fixed guaranteed products, and all of our variable life insurance products, as well as our FABNs issued as part of our registered notes program are securities within the meaning of federal and state securities laws, are registered under the Securities Act of 1933 and are subject to regulation by the SEC. See Other Laws and Regulations Securities regulation. These products may also be indirectly regulated by FINRA as a result of FINRA's regulation of broker/dealers and may be regulated by state securities authorities. Federal and state securities regulation similar to that discussed below under Other Laws and Regulations Securities regulation affects investment advice and sales and related activities with respect to these products. U.S. mortgage insurance products and insurers are also subject to federal regulation discussed below under Mortgage Insurance. In addition, although the federal government does not comprehensively regulate the business of insurance, federal legislation and administrative policies in several areas, including taxation, financial services regulation, and pension and welfare benefits regulation, can also significantly affect the insurance industry.

### ***Dodd-Frank Act and other federal initiatives***

Although the federal government generally does not directly regulate the insurance business, federal initiatives often, and increasingly, have an impact on the business in a variety of ways, including limitations on antitrust immunity, tax incentives for lifetime annuity payouts, simplification bills affecting tax-advantaged or tax-exempt savings and retirement vehicles, and proposals to modify the estate tax. In addition, various forms of direct federal regulation of insurance have been proposed in recent years.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) made extensive changes to the laws regulating financial services firms and required various federal agencies to adopt a broad range of new implementing rules and regulations, many of which have taken effect.

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Among other provisions, the Dodd-Frank Act established a new framework of regulation of the over-the-counter ( OTC ) derivatives markets which requires, among other things, trade reporting of OTC derivatives transactions, formalized documentation requirements, execution of designated transactions on a swap execution facility ( SEF ) or designated contracts market ( DCM ), clearing of designated transactions through designated clearing organizations ( DCOs ) and exchange of initial and variation margin for non-cleared swap transactions. We currently are subject to reporting with respect to all derivatives transactions we enter into and must execute certain interest rate and other transactions on a SEF or DCM, which transactions we also must clear through a DCO. The clearing requirements, among other things, require us to post with a futures commission merchant highly liquid securities or cash as initial margin and cash to meet variation margin requirements for most interest rate derivatives we trade. Over time, we will experience additional collateral requirements for derivative transactions that are not required to be cleared. As the new marketplace continues to evolve, we may have to alter or limit the way we use derivatives in the future, which could have a material adverse effect on our results of operations and financial condition. We are subject to similar trade reporting, documentation, central trading and clearing and OTC margining requirements when we transact with foreign derivatives counterparties. The Dodd-Frank Act and foreign derivatives requirements expose us to operational, compliance, execution and other risks, including central counterparty insolvency risk.

In the case of our U.S. mortgage insurance business, the Dodd-Frank Act prohibits a creditor from making a residential mortgage loan unless the creditor makes a reasonable and good faith determination that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan. In addition, the Dodd-Frank Act created the CFPB, which regulates certain aspects of the offering and provision of consumer financial products or services but not the business of insurance. In January 2014, CFPB rules implementing the ability-to-repay and Qualified Mortgage standards contained in the Dodd-Frank Act went into effect. The rules set requirements for how mortgage lenders can demonstrate that they have effectively considered the consumer's ability to repay a mortgage loan, establish when a mortgage may be classified as a Qualified Mortgage and determine when a lender is eligible for a safe harbor as a presumption that the lender has complied with the ability-to-repay requirements. We expect the rules to have a positive impact on the credit quality of mortgage loans which may benefit our delinquency rates but the rule may have the negative impact of reducing the number of loans originated and therefore available for the mortgage insurance market.

The Dodd-Frank Act also establishes a Financial Stability Oversight Council ( FSOC ), which is authorized to subject non-bank financial companies, which may include insurance companies, deemed systemically significant to stricter prudential standards and other requirements and to subject such companies to a special orderly liquidation process outside the federal Bankruptcy Code, administered by the Federal Deposit Insurance Corporation. We have not currently been designated as systemically significant by FSOC but this determination could change in the future. FSOC's potential recommendation of measures to address systemic financial risk could affect our insurance operations as could a future determination that we or our counterparties are systemically significant, which could impose significant burdens on us, impact the way we conduct our business, increase compliance costs, duplicate state regulation and could result in a competitive disadvantage.

The Dodd-Frank Act establishes a Federal Insurance Office ( FIO ) within the Department of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation. In December 2013, FIO issued a report on alternatives to modernize and improve the system of insurance regulation in the United States, including by increasing national uniformity through either a federal charter or effective action by the states, in particular recommending federal standards and oversight regulations for mortgage insurers. If adopted, we cannot predict what effect, if any, such standards and regulations may have on our U.S. mortgage insurance business. Further, in December 2014, FIO delivered its report to Congress describing the global reinsurance market and its critical role

in supporting the U.S. insurance system.

A Residential Mortgage-Backed Securities Working Group was formed in 2012 under President Obama's Financial Fraud Enforcement Task Force to investigate misconduct contributing to the financial crisis through the

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pooling and sale of residential mortgage-backed securities. The principal focus of this Working Group has been directed at enforcement actions against issuers and servicers of mortgage-backed securities. As the activities of this Working Group are ongoing, we cannot predict what impact, if any, this Working Group may have on the mortgage insurance industry in general and our business in particular.

We cannot predict the requirements of all of the regulations adopted under the Dodd-Frank Act, the effect such legislation or regulations will have on financial markets generally, or on our businesses specifically, the additional costs associated with compliance with such regulations or legislation, or any changes to our operations that may be necessary to comply with the Dodd-Frank Act and the regulations thereunder, any of which could have a material adverse effect on our business, results of operations, cash flows or financial condition. We also cannot predict whether other federal initiatives will be adopted or what impact, if any, such initiatives, if adopted as laws, may have on our business, financial condition or results of operations.

***Changes in tax laws***

In December 2015, President Obama signed the Protecting Americans from Tax Hikes Act of 2015 ( 2015 Path Act ). Included in the 2015 Path Act was a permanent extension of the active financing provision for foreign insurance subsidiaries, under which income from a foreign subsidiary's active conduct of an insurance business is eligible for deferral of tax. The 2015 Path Act provided two year retroactive extensions through December 31, 2016 of certain tax benefits to individuals and businesses. It contained a two-year extension allowing certain taxpayers whose mortgage debt that may be forgiven in 2015 and 2016 to exclude the debt forgiveness from taxable income. Also included in the 2015 Path Act was a provision to continue to allow certain mortgage insurance premiums as deductible interest for 2015 and 2016. To date, these provisions have not been extended past 2016 and it is unclear at this time whether these provisions will be extended in future legislation. However, we believe that the impact on our U.S. mortgage insurance products will be immaterial regardless of whether the provisions are further extended. There is potential for significant tax reform in 2017, or in years after 2017.

***Mortgage Insurance Regulation******State regulation******General***

Mortgage insurers generally are limited by Insurance Laws to directly writing only mortgage insurance business to the exclusion of other types of insurance. Mortgage insurers are not subject to the NAIC's RBC requirements but certain states and other regulators impose another form of capital requirement on mortgage insurers, requiring maintenance of a risk-to-capital ratio not to exceed 25:1. GMICO, our primary U.S. mortgage insurance subsidiary, had a risk-to-capital ratio of 14.5:1 and 16.4:1 as of December 31, 2016 and 2015, respectively.

The North Carolina Department of Insurance's ( NCDOI ) current regulatory framework by which GMICO's risk-to-capital ratio is calculated differs from the capital requirements of the GSEs as discussed under Other U.S. regulation.

During 2012, the NAIC established a Mortgage Guaranty Insurance Working Group (the MGIWG ) to determine and make recommendations to the NAIC's Financial Condition Committee as to what, if any, changes to make to the solvency and other regulations relating to mortgage guaranty insurers. During 2014 and 2015, the MGIWG published revised drafts of the previously proposed amendments of the NAIC's Mortgage Guaranty Insurers Model Act (the MGI Model ) and solicited comments on these revised proposed amendments. The proposed amendments of the MGI Model

relate to, among other things: (i) capital and reserve standards, including increased minimum capital and surplus requirements, mortgage guaranty-specific RBC standards, dividend restrictions and contingency and premium deficiency reserves; (ii) limitations on the geographic



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concentration of mortgage guaranty risk, including state-based limitations; (iii) restrictions on mortgage insurers investments in notes secured by mortgages; (iv) prudent underwriting standards and formal underwriting guidelines to be approved by the insurer's board; (v) the establishment of formal, internal Mortgage Guaranty Quality Control Programs with respect to in-force business; (vi) prohibitions on reinsurance with bank captive reinsurers; and (vii) incorporation of an NAIC Mortgage Guaranty Insurance Standards Manual. The MGIWG continued to receive comments and make revisions to the MGI Model in 2016, which still has not been finalized. At this time, we cannot predict the outcome of this process, the effect changes, if any, will have on the mortgage guaranty insurance market generally, or on our businesses specifically, the additional costs associated with compliance with any such changes, or any changes to our operations that may be necessary to comply, any of which could have a material adverse effect on our business, results of operations, cash flows or financial condition. We also cannot predict whether other regulatory initiatives will be adopted or what impact, if any, such initiatives, if adopted as laws, may have on our business, financial condition or results of operations.

*Reserves*

Insurance Laws require our U.S. mortgage insurers to establish a special statutory contingency reserve in their statutory financial statements to provide for losses in the event of significant economic declines. Annual additions to the statutory contingency reserve must equal 50% of net earned premiums as defined by Insurance Laws. These contingency reserves generally are held until the earlier of (i) the time that loss ratios exceed 35% or (ii) 10 years, although regulators have granted discretionary releases from time to time. However, approval by the NCDOL, our primary domiciliary regulator, is required for contingency reserve releases when loss ratios exceed 35%. This reserve reduces the policyholder surplus of our U.S. mortgage insurers, and therefore, their ability to pay dividends to us. The statutory contingency reserve for our U.S. mortgage insurers was approximately \$845 million as of December 31, 2016.

*Federal regulation*

In addition to federal laws directly applicable to mortgage insurers, the laws and regulations applicable to mortgage originators and lenders, purchasers of mortgage loans such as Freddie Mac and Fannie Mae, and governmental insurers such as the FHA and VA indirectly affect mortgage insurers. For example, changes in federal housing legislation and other laws and regulations that affect the demand for private mortgage insurance may have a material effect on private mortgage insurers. Legislation or regulation that increases the number of people eligible for FHA or VA mortgages could have a materially adverse effect on our ability to compete with the FHA or VA.

The Homeowners Protection Act of 1998 (the Homeowners Protection Act) provides for the automatic termination, or cancellation upon a borrower's request, of the borrower's obligation to pay for private mortgage insurance upon satisfaction of certain conditions, although mortgage servicers may continue to keep the coverage in place at their expense. The Homeowners Protection Act applies to owner-occupied residential mortgage loans regardless of lien priority and to borrower-paid mortgage insurance closed after July 29, 1999. FHA loans are not covered by the Homeowners Protection Act. Under the Homeowners Protection Act, automatic termination of the borrower's obligation to pay for mortgage insurance would generally occur once the loan-to-value ratio reaches 78%. A borrower generally may request cancellation of mortgage insurance once the actual payments reduce the loan balance to 80% of the home's original value. For borrower-initiated cancellation of mortgage insurance, the borrower must have a good payment history as defined by the Homeowners Protection Act.

The Real Estate Settlement and Procedures Act of 1974 (RESPA) applies to most residential mortgages insured by private mortgage insurers. Mortgage insurance has been considered in some cases to be a settlement service for purposes of loans subject to RESPA. Subject to limited exceptions, RESPA precludes us from providing services to

mortgage lenders free of charge, charging fees for services that are lower than their reasonable or fair market value, and paying fees for services that others provide that are higher than their reasonable or fair market value. In addition, RESPA prohibits persons from giving or accepting any portion or

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percentage of a charge for a real estate settlement service, other than for services actually performed. Although many states prohibit mortgage insurers from giving rebates, RESPA has been interpreted to cover many non-fee services as well. Mortgage insurers and their customers are subject to the possible sanctions of this law, which may be enforced by the CFPB, state insurance departments, state attorneys general and other enforcement authorities.

The Equal Credit Opportunity Act ( ECOA ) and the Fair Credit Reporting Act ( FCRA ) also affect the business of mortgage insurance in various ways. ECOA, for example, prohibits discrimination against certain protected classes in credit transactions. FCRA governs the access and use of consumer credit information in credit transactions and requires notices to consumers in certain circumstances.

***Other U.S. regulation***

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. The financial requirements of PMIERS mandate that a mortgage insurer's Available Assets (generally only the most liquid assets of an insurer) must meet or exceed Minimum Required Assets (which are based on an insurer's risk in-force and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). The operational PMIERS requirements include standards that govern the relationship between the GSEs and approved insurers and are designed to ensure that approved insurers operate under uniform guidelines, such as claim processing timelines. They include quality control requirements that are designed to ensure that approved insurers have a strong internal risk management infrastructure that emphasizes continuous process improvement and senior management oversight.

As of December 31, 2016, we estimate our U.S. mortgage insurance business had available assets of approximately 115% of the required assets under PMIERS compared to approximately 109% as of December 31, 2015. As of December 31, 2016 and 2015, the PMIERS sufficiency ratios were in excess of approximately \$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.

In their respective letters approving credit for reinsurance against PMIERS financial requirements, the GSEs require our U.S. mortgage insurance subsidiary to maintain a maximum statutory risk to capital ratio of 18:1 or they reserve the right to reevaluate the amount of PMIERS credit indicated in their approval letters. Freddie Mac has also imposed additional requirements on our option to commute these reinsurance agreements. Both GSEs reserved the right to periodically review the reinsurance transactions for treatment under PMIERS.

***Canada regulation***

The Office of the Superintendent of Financial Institutions ( OSFI ) provides oversight to all federally incorporated financial institutions, including our Canadian mortgage insurance companies, which are indirect wholly-owned subsidiaries of Genworth Canada. OSFI also has oversight responsibility for CMHC, our main competitor. OSFI does not have enforcement powers over market conduct issues in the insurance industry, which are a provincial responsibility. The Bank Act, Insurance Companies Act and Trust and Loan Companies Act prohibit Canadian banks, trust companies and insurers from extending mortgage loans where the loan value exceeds 80% of the property's value, unless mortgage insurance is obtained in connection with the loan. As a result, all mortgages issued by these financial

institutions with a loan-to-value ratio exceeding 80% must be insured by a qualified insurer, which includes CMHC. Legislation prohibits such financial institutions from charging borrowers amounts for mortgage insurance that exceed the lender's actual costs and impose disclosure obligations in respect of mortgage insurance.

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As discussed in Business Canada Mortgage Insurance Government guarantee eligibility, government guaranteed mortgage insurers, including our Canadian mortgage insurance companies, are subject to PRMHIA regulation, which restricts our direct insurance activities to insuring mortgages that meet the government's mortgage insurance eligibility. Reinsurance business is not subject to these restrictions. We are required to hold certain regulatory capital under PRMHIA and the Insurance Companies Act (Canada) to support our outstanding mortgage insurance in-force.

Under PRMHIA, the regulations establish the following criteria that a high loan-to-value mortgage has to meet in order to be insured:

a maximum mortgage amortization of 25 years

insurance of mortgages limited to loans with a loan-to-value of 95% or less

insurance of refinanced mortgage limited to loans with a loan-to-value of 80% or less

insurance of mortgages for investment properties limited to 80% or less

capping the maximum gross debt service ratios at 39% and total debt service ratios at 44%

capping home purchase price to less than CAD\$1 million

setting a minimum credit score of 600

On December 11, 2015, the Canadian government announced a change to the eligibility rules for new government backed insured mortgages on properties priced above CAD\$500,000. Effective February 15, 2016, the minimum down payment for new insured mortgages was increased from 5% to 10% for the portion of home prices above CAD\$500,000.

On October 3, 2016, the Minister of Finance announced changes intended to reinforce the Canadian housing finance system. These changes primarily included more restrictive qualification guidelines on homebuyers seeking mortgage insurance compared to the prior requirements and new requirements on insured mortgage loans using bulk or other discretionary low loan-to-value mortgage insurance that previously only applied to high loan-to-value insured mortgages. These changes in regulatory requirements could cause a decrease in demand for both flow and bulk new insurance written going forward.

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 OSFI. The Department of Finance in Canada had previously established an MCT ratio for our mortgage insurance business in Canada of 175% under PRMHIA.

On December 15, 2016, OSFI released its final capital advisory titled *Capital Requirements for Federally Regulated Mortgage Insurers*. The advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The advisory came into effect on January 1, 2017, replacing OSFI's current advisory, *Interim Capital Requirements for Mortgage Insurance Companies*, which had been in effect since January 2015. The advisory includes supplementary capital requirements on new business in areas where home prices are high relative to borrower incomes upon origination.

As a result of higher regulatory capital requirements that came into effect January 1, 2017, our mortgage insurance business in Canada recently announced an increase in premium rates of approximately 20% on flow new business effective March 17, 2017. Similarly, our mortgage business in Canada has also increased its premium rates for bulk insurance. There may be a one-time increase in bulk insurance volumes in the first quarter of 2017 due to pending bulk applications at the end of 2016 that are expected to close in early 2017.

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Pending the development of this new regulatory capital framework, we had established an operating MCT holding target of 220% in 2014. As of December 31, 2016, our MCT ratio was 245%, which is above the MCT holding target. Under the new regulatory capital framework, the holding target of 220% was recalibrated to the updated OSFI Supervisory MCT Target and PRMHIA requirement of 150%. Based on the new framework our mortgage insurance business in Canada estimates that its MCT ratio as of December 31, 2016 would have been in the range of 158% to 162%. As a result, the business was compliant with the new framework upon its implementation on January 1, 2017.

Beginning in 2014, as part of requirements from our regulator in Canada, we developed and implemented our own risk and solvency assessment ( Canada ORSA ). Our Canada ORSA is a process that links our risk management framework to our business strategy and decision-making framework. Our Canada ORSA provides a baseline assessment of identified risks and the supporting risk management activities. Additionally, our Canada ORSA documents our risk exposure relative to our risk appetite and calculates the capital required to support those risks under certain pre-defined stress events. The implementation of our Canada ORSA did not result in a significant change to our practices of evaluating and managing risks.

On November 6, 2014, OSFI published the final B-21 Residential Mortgage Insurance Underwriting Practices and Procedures Guideline (the B-21 Guideline ). In the B-21 Guideline, OSFI sets out principles that promote and support sound residential mortgage insurance underwriting. These six principles focus on three main themes: (i) governance, development of business objectives and strategy, and oversight; (ii) interaction with lenders as part of the underwriting process; and (iii) internal underwriting operations and risk management. The B-21 Guideline also enhances disclosure requirements, which will support greater transparency, clarity and public confidence in mortgage insurers residential mortgage insurance underwriting practices. Genworth Canada is in compliance with the B-21 Guideline which was effective June 30, 2015.

On December 11, 2015, CMHC announced a price increase to its guarantee fees it will charge issuers as well as annual limits for new guarantees for both its National Housing Act Mortgage-Backed Securities ( NHA MBS ) and Canadian Mortgage Bond ( CMB ) programs effective July 1, 2016. CMHC guarantees the timely payment of principal and interest for NHA MBS and CMB, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors. The guarantee fees are paid by lenders in addition to the mortgage insurance premium. This price increase was in addition to a price increase implemented effective April 1, 2015. On June 3, 2015, the Canadian government published regulations that prohibit the substitution of mortgages in insured pools after May 15, 2015 and limit the mortgage insurer s commitment period to no more than one year.

On June 6, 2015, the Canadian government published regulations to limit bulk mortgage insurance to only those mortgages that will be used in CMHC securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations. The regulations became effective on July 1, 2016 and are expected to decrease demand for bulk mortgage insurance over time.

The Insurance Companies Act (Canada) provides that dividends may only be declared by the board of directors of the Canadian insurer and paid if there are reasonable grounds to believe that the payment of the dividend would not cause the insurer to be in violation of its minimum capital and liquidity requirements. Also, we are required to notify OSFI prior to the dividend payment.

As a public company that is traded on the Toronto Stock Exchange (the TSX ), Genworth Canada is subject to securities laws and regulation in each province in Canada, as well as the reporting requirements of the TSX.

***Australia regulation***

APRA regulates all ADIs in Australia and life, general and mortgage insurance companies. APRA's authorization conditions require Australian mortgage insurers to be monoline insurers, which are insurers offering just one type of insurance product. APRA's prudential standards apply to individual authorized insurers and to the relevant Australian-based holding company and group.



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APRA also sets minimum capital levels and monitors corporate governance requirements, including the risk management strategy for our Australian mortgage insurance business. In this regard, APRA reviews our management, controls, processes, reporting and methods by which all risks are managed, including an annual financial condition report and an annual report on insurance liabilities by an appointed actuary. APRA also requires us to submit our risk management strategy and reinsurance management strategy, which outlines the use of reinsurance in Australia, annually and more frequently if there are material changes.

In setting minimum capital levels, APRA requires mortgage insurers to ensure they have sufficient capital to withstand a hypothetical three-year stress loss scenario defined by APRA. APRA's prudential standards provide for increased mortgage insurers' capital requirements for insured loans that are considered to be non-standard. Non-standard mortgages are generally those loans where the lender has not formally verified the borrower's income and employment or where the borrower has not passed standard credit checks. Non-standard mortgages account for less than one percent of our new business in our mortgage insurance business in Australia. APRA also imposes quarterly reporting obligations on mortgage insurers with respect to risk profiles, reinsurance arrangements and financial position. We evaluate the capital position of our mortgage insurance business in Australia 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 December 31, 2016, our PCA ratio was 157%, which is above APRA's capital holding requirements.

In addition, APRA determines the capital requirements for ADIs and has reduced capital requirements for certain ADIs that insure residential mortgages with an acceptable mortgage insurer for all non-standard mortgages and for standard mortgages with loan-to-value ratios above 80%. APRA's prudential standards currently set out a number of circumstances in which a loan may be considered to be non-standard from an ADI's perspective. The capital levels for Australian IRB ADIs are determined by their APRA-approved IRB models, which may or may not allocate capital credit for LMI. We believe that APRA and the IRB ADIs have not yet finalized internal models for residential mortgage risk, so we do not believe that the IRB ADIs currently benefit from an explicit reduction in their capital requirements for mortgages covered by mortgage insurance. APRA's prudential standards also provide that LMI on a non-performing loan (90 days plus arrears) protects most ADIs from having to increase the regulatory capital on the loan to a risk-weighting of 100%. These prudential standards include a definition of an acceptable mortgage insurer and eliminate the reduced capital requirements for ADIs in the event that the mortgage insurer has contractual recourse to the ADI or a member of the ADI's consolidated group.

On July 20, 2015, APRA issued a press release announcing that for the IRB banks the average risk-weight on Australian residential mortgage loan exposures will increase from approximately 16% to at least 25%, which was effective on July 1, 2016. In October 2015, the Australian government issued a response to the Financial System Inquiry ( FSI ) recommendations, setting forth the Australian government's approach and intended timeline for improving Australia's financial system. While the Australian government agreed with the FSI's recommendations regarding setting strong capital ratio requirements for ADIs and narrowing mortgage risk weight differences, the Australian government's response did not specifically comment on the role and utilization of mortgage insurance. Rather, the Australian government endorsed APRA's role in regulating these areas. On December 16, 2015, APRA announced a staggered approach to IRB accreditation, providing the capacity for an ADI to use accredited IRB models for regulatory capital purposes for some credit portfolios ahead of others, and also noting the Basel Committee's review of capital management for IRB banks. Given the recent nature of these regulatory and policy developments, we and other market participants are still assessing potential impacts and we have therefore not yet determined whether or how these regulatory and policy developments will impact our Australian mortgage insurance business.

In November 2014, APRA released Prudential Practice Guide APG 223 Residential Mortgage Lending ( APG 223 ), as part of its continued focus on lending standards. The guidelines are focused on clarifying the regulators expectations around lending standards and, among other items, addressed the strengthening of loan

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serviceability testing across all ADIs. In addition, APRA also wrote to ADIs to advise that in its view annual investor credit growth materially above a benchmark of 10% would be an important risk indicator that supervisors will take into account when reviewing ADIs' residential mortgage risk profile and considering supervisory actions. In August 2015, the Australian Securities & Investments Commission (ASIC) released a report following its investigations into interest-only loans over the first half of 2015. The report introduces new responsible lending guidance for banks and non-bank lenders, brokers and servicers, focusing on home loans. The impact of APG 223 and the increased supervision by APRA and ASIC has been the tightening of lending standards which has led to reduced volumes of new insurance written for loans with loan-to-values greater than 80% and gross written premiums in our Australian mortgage insurance business.

APRA has the power to impose restrictions on the ability of our Australian mortgage insurance business to declare and pay dividends based on a number of factors, including the impact on the minimum regulatory capital ratio of that business.

As a public company that is traded on the Australian Securities Exchange (the ASX), Genworth Australia is subject to Australian securities laws and regulation, as well as the reporting requirements of the ASX.

### ***Other Non-U.S. Insurance Regulation***

We operate in a number of countries around the world in addition to the United States, Canada and Australia. Generally, our subsidiaries (and in some cases our branches) conducting business in these countries must obtain licenses from local regulatory authorities and satisfy local regulatory requirements, including those relating to rates, forms, capital, reserves and financial reporting.

### ***Other Laws and Regulations***

#### ***Securities regulation***

Certain of our U.S. subsidiaries and certain policies, contracts and services offered by them, are subject to regulation under federal and state securities laws and regulations of the SEC, state securities regulators and FINRA. Most of our insurance company separate accounts are registered under the Investment Company Act of 1940. Most of our variable annuity contracts and all of our variable life insurance policies, as well as our FABNs issued by one of our U.S. subsidiaries as part of our registered notes program are registered under the Securities Act of 1933. One of our U.S. subsidiaries is registered and regulated as a broker/dealer under the Securities Exchange Act of 1934 and is a member of, and subject to regulation by FINRA, as well as by various state and local regulators. The registered representatives of our broker/dealer are also regulated by the SEC and FINRA and are subject to applicable state and local laws.

These laws and regulations are primarily intended to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. In such event, the possible sanctions that may be imposed include suspension of individual employees, limitations on the activities in which the broker/dealer may engage, suspension or revocation of the investment adviser or broker/dealer registration, censure or fines. We may also be subject to similar laws and regulations in the states and other countries in which we offer the products described above or conduct other securities-related activities.

The SEC, FINRA, state attorneys general, other federal offices and the New York Stock Exchange may conduct periodic examinations, in addition to special or targeted examinations of us and/or specific products. These examinations or inquiries may include, but are not necessarily limited to, product disclosures and sales issues,

financial and accounting disclosure and operational issues. Often examinations are sweep exams whereby the regulator reviews current issues facing the financial or insurance industry as a whole.

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**Table of Contents*****Environmental considerations***

As an owner and operator of real property, we are subject to extensive U.S. federal and state and non-U.S. environmental laws and regulations. Potential environmental liabilities and costs in connection with any required remediation of our properties is also an inherent risk in property ownership and operation. In addition, we hold equity interests in companies, and have made loans secured by properties, that could potentially be subject to environmental liabilities. We routinely have environmental assessments performed with respect to real estate being acquired for investment and real property to be acquired through foreclosure. We cannot provide assurance that unexpected environmental liabilities will not arise. However, based upon information currently available to us, we believe that any costs associated with compliance with environmental laws and regulations or any remediation of such properties will not have a material adverse effect on our business, financial condition or results of operations.

***ERISA considerations***

We provide certain products and services to employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 ( ERISA ) or the Internal Revenue Code. As such, our activities are subject to the restrictions imposed by ERISA and the Internal Revenue Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and fiduciaries may not cause or permit a covered plan to engage in certain prohibited transactions with persons who have certain relationships with respect to such plans. The applicable provisions of ERISA and the Internal Revenue Code are subject to enforcement by the U.S. Department of Labor ( DOL ), the Internal Revenue Service ( IRS ) and the Pension Benefit Guaranty Corporation.

On April 6, 2016, the DOL published its final regulations on the definition of fiduciary for purposes of ERISA and the prohibited transaction rules under the Internal Revenue Code of 1986. The final regulations, among other things, expand the circumstances in which sales personnel, such as insurance agents, are considered fiduciaries with respect to qualified plans and Individual Retirement Accounts. The DOL also issued two new prohibited transaction exemptions ( PTEs ) and amended several other existing PTEs. The final rule, new exemptions and amendments will become applicable on April 10, 2017, but the DOL provided a compliance transition period from April 10, 2017 until January 1, 2018, for certain provisions of the rule. The rule will require our U.S. insurance company subsidiaries to implement new processes and potentially expand systems capabilities to provide distribution partners with information necessary to comply with PTEs or other provisions under the DOL s final rule. In addition, our U.S. insurance company subsidiaries will be required to comply with the provisions with the final rule to the extent that sales and support activities for covered products fall within the scope of the rule. Because we have exited several lines of business with potentially covered products, the impact to our business will be limited relative to other insurance carriers. Nonetheless, we are reviewing our processes and will be updating our processes and systems as necessary to comply with PTEs and other provisions under the rule. In anticipation of the possibility that the new fiduciary rule may be modified, it is not possible to predict the impact of the new rules on the business of our insurance companies and on our financial condition or results of operations.

***USA PATRIOT Act***

The USA PATRIOT Act of 2001 (the Patriot Act ), enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker/dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties who may be involved in terrorism or money laundering. Anti-money laundering laws outside of the United States contain similar provisions. The increased obligations of financial institutions to identify their customers,

watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, require the implementation and maintenance of internal practices, procedures and controls. We believe that we have implemented, and that we maintain, appropriate internal

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practices, procedures and controls to enable us to comply with the provisions of the Patriot Act. Certain additional requirements became applicable under the Patriot Act in May 2006 through a U.S. Treasury regulation which required that certain insurers have anti-money laundering compliance plans in place. We believe our internal practices, procedures and controls comply with these requirements.

### ***Privacy of consumer information***

In the United States, federal and state laws and regulations require financial institutions, including insurance companies, to protect the security and confidentiality of consumer financial information and to notify consumers about policies and practices relating to the collection and disclosure of consumer information and policies relating to protecting the security and confidentiality of that information. Similarly, federal and state laws and regulations govern the disclosure and security of consumer health information. In particular, regulations promulgated by the U.S. Department of Health and Human Services, the Federal Trade Commission and various states regulate the disclosure and use of protected health information by health insurers and other covered entities, the physical and procedural safeguards employed to protect the security of that information, and the electronic transmission of such information. From time to time, Congress and state legislatures consider additional legislation relating to privacy and other aspects of consumer information. We cannot predict whether such legislation will be enacted, or what impact, if any, such legislation may have on our business, financial condition or results of operations.

Similar laws and regulations protecting the security and confidentiality of consumer and financial information are also in effect in Canada, Australia and other countries in which we operate.

### **Employees**

As of December 31, 2016, we had approximately 3,400 full-time and part-time employees.

### **Directors and Executive Officers**

See Part III, Item 10 of this Annual Report on Form 10-K for information about our directors and executive officers.

### **Available Information**

**Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, without charge, on our website, [www.genworth.com](http://www.genworth.com), as soon as reasonably practicable after we file or furnish such reports with the SEC. The public may read and copy any materials we file or furnish with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of our SEC filed or furnished reports are also available, without charge, from Genworth Investor Relations, 6620 West Broad Street, Richmond, VA 23230.**

Our website also includes the charters of our Audit Committee, Nominating and Corporate Governance Committee, Risk Committee, and Management Development and Compensation Committee, any key practices of these committees, our Governance Principles, and our company's code of ethics. Copies of these materials also are available, without charge, from Genworth Investor Relations, at the above address. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to our code of ethics and any waiver applicable to any of our directors, executive officers or senior financial officers.





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On June 13, 2016, our President and Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation by us of the New York Stock Exchange's corporate governance listing standards.

**Transfer Agent and Registrar**

Our Transfer Agent and Registrar is Computershare Shareowner Services LLC, P.O. Box 30170, College Station, TX 77842-3170. Telephone: 866-229-8413; 201-680-6578 (outside the United States and Canada may call collect); and 800-231-5469 (for hearing impaired).

**Table of Contents****Item 1A. Risk Factors**

*You should carefully consider the following risks. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our common stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by us or on our behalf. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under Cautionary note regarding forward-looking statements and the risks of our businesses described elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2016.*

**Strategic Risks**

**The proposed transaction with China Oceanwide may not be completed or may not be completed under 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), FINRA, 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 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 insurance businesses;

a negative impact on our holding company liquidity and ability to reduce, 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.

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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;

existing and potential legal proceedings may be instituted against us following announcement of the transaction that may delay the transaction, make it more costly or ultimately preclude it;

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, or in the absence of, 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.

Potential consequences of these risks could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on Genworth's consolidated financial condition, results of operations, credit ratings or liquidity.

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 unable to successfully execute strategic plans to effectively address our current business challenges.**

We continue to pursue our overall strategy with a focus on improving business performance and increasing financial and strategic flexibility across the organizations. Our strategy includes maximizing our opportunities in our mortgage insurance businesses and restructuring our U.S. life insurance businesses. See Item 1 Business Strategic Update.

We cannot be sure we will be able to successfully execute on any of our strategic plans to effectively address our current business challenges (including with respect to the restructuring of our U.S. life insurance businesses, cost savings, ratings, debt management and capital), including as a result of: (a) a failure to complete the China Oceanwide transaction or the inability to pursue alternative strategic plans pending the transaction;

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(b) our inability to generate required capital; (c) our failure to obtain any required regulatory, stockholder, noteholder or other third-party approvals or consents or anticipated credit or financial strength ratings; (d) our strategic plans changing or being more costly or difficult to successfully implement than we currently anticipate or the expected benefits achieved being less than we anticipate; (e) our inability to achieve anticipated cost-savings; and (f) adverse tax or accounting charges.

If the proposed transaction with China Oceanwide is not completed, we will continue to remain open to other feasible alternatives and actively assess our strategic options, which could include selling additional blocks of business and/or reducing ownership of or selling businesses, including in transactions that would be material to us. We may be unable to complete any sale of additional blocks of business, or reduce ownership of or sell businesses on terms anticipated or at all.

Even if we are successful in executing our strategic plans or alternative plans, the execution of these plans may have expected or unexpected adverse consequences, including adverse rating actions and adverse tax and accounting charges (such as significant losses on sale of businesses or assets or deferred acquisition costs ( DAC ) or deferred tax asset write offs).

To increase our financial flexibility we may decide, in the absence of the China Oceanwide transaction, to issue equity at Genworth Financial, which would be dilutive to our shareholders, or debt at Genworth Financial or Genworth Holdings (including debt convertible into equity of Genworth Financial), which could increase our leverage. The availability of any additional debt or equity funding will depend on a variety of factors, including, market conditions, regulatory considerations, the general availability of credit and particularly, to the financial services industry, our credit ratings and credit capacity and the performance of and outlook for our company and our businesses. Market conditions may make it difficult to obtain funding or complete asset sales to generate additional liquidity, especially on short notice and when the demand for additional funding in the market is high. Our access to funding may be further impaired by our credit or financial strength ratings and our financial condition. See 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.

**We may be unable 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.**

We have in the past provided, and currently expect to provide, additional capital to our businesses as necessary (and to the extent we determine it is appropriate to do so) to meet regulatory or GSE capital requirements, comply with rating agency criteria to maintain ratings and provide capital and liquidity buffers for our businesses to operate and meet unexpected cash flow obligations. We may not be able to fund or raise the required capital as and when required and the amount of capital required may be higher than anticipated, particularly in the absence of the China Oceanwide transaction. Our inability to fund or raise the capital required in the anticipated timeframes and on the anticipated terms, could have a material adverse impact on our business, results of operations and financial condition, including causing us to reduce our business levels or be subject to a variety of regulatory actions. See 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 light of the capital needs of our U.S. life insurance businesses, we currently are unable to pay dividends from our life insurance subsidiaries to the holding company.

In addition, we intend to continue to support the increased capital needs of our U.S. mortgage insurance business resulting from PMIERS. As of December 31, 2016 and 2015, our U.S. mortgage insurance business met the PMIERS financial and operational requirements, and holds a reasonable amount in excess of the financial

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requirements, based in part on its entry into a series of reinsurance transactions and sale of affiliated preferred securities during 2015. In order to continue to provide a prudent level of financial flexibility in connection with the PMIERS capital requirements given the dynamic nature of asset and requirement valuations over time, our U.S. mortgage insurance business may be required, particularly in the absence of the China Oceanwide transaction, to execute future capital transactions, including additional reinsurance transactions and contributions of holding company cash. See [Item 1](#). If we are unable to meet the requirements mandated by PMIERS because the GSEs amend them or because the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we currently have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.

The implementation of any further reinsurance transactions all depend on the completion of the China Oceanwide transaction, market conditions, third-party approvals or other actions (including approval by regulators and the GSEs), and other factors which are outside of our control, and therefore we cannot be sure we will be able to successfully implement these actions on the anticipated timetable and terms or at all, or achieve the anticipated benefits. For a discussion of risks related to our strategic plans, see [Item 1](#). We may be unable to successfully execute strategic plans to effectively address our current business challenges.

**Risks Relating to Estimates, Assumptions and Valuations****If our reserves for future policy claims are inadequate, we may be required to increase our reserves, which could have a material adverse effect on our results of operations and financial condition.**

We calculate and maintain reserves for estimated future payments of claims to our policyholders and contractholders in accordance with U.S. GAAP and industry accounting practices. We release these reserves as those future obligations are paid, experience changes or policies lapse. The reserves we establish reflect estimates and actuarial assumptions with regard to our future experience. These estimates and actuarial assumptions involve the exercise of significant judgment. Our future financial results depend significantly upon the extent to which our actual future experience is consistent with the assumptions and methodologies we have used in pricing our products and calculating our reserves. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past had, material impacts on our reserves, results of operations and financial condition. Many factors, and changes in these factors, can affect future experience, 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 rate increases or benefit reductions; 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. For information regarding adequacy of reserves specifically related to our long-term care insurance, life insurance and annuities businesses and increases to our reserves in 2016, see [Item 1](#). We may be required to increase our reserves in our long-term care insurance, life insurance and/or annuity businesses as a result of 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.

We regularly review our reserves and associated assumptions as part of our ongoing assessment of our business performance and risks. If we conclude that our reserves are insufficient to cover actual or expected policy and contract benefits and claim payments (as we have on certain occasions in the past) as a result of changes in experience, assumptions or otherwise, we would be required to increase our reserves and incur charges in the period in which we



make the determination. The amounts of such increases may be significant (as they have been on occasions in the past) and this could materially adversely affect our results of operations and financial condition and may require us to generate or fund additional capital in our businesses.

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For additional information on 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.

**If the models used in our businesses are inaccurate, it could have a material adverse impact on our business, results of operations and financial condition.**

We employ models to, among other uses, price products, calculate reserves, value assets and generate projections used to estimate future pre-tax income and to evaluate loss recognition testing, as well as to evaluate risk, determine internal capital requirements and perform stress testing. These models rely on estimates and projections that are inherently uncertain, may use data and/or assumptions that do not adequately reflect recent experience and relevant industry data, and may not operate as intended. In addition, from time to time we seek to improve certain actuarial and financial models, and the conversion process may result in material changes to assumptions and financial results. The models we employ are complex, which increases our risk of error in their design, implementation or use. Also, the associated input data, assumptions and calculations and the controls we have in place to mitigate these risks may not be effective in all cases. The risks related to our models often increase when we change assumptions and/or methodologies, add or change modeling platforms or implement model changes under time constraints. These risks are exacerbated when the process for assumption changes strains our overall governance and timing around our financial reporting. We intend to continue to enhance our modeling capabilities in our various businesses, including for our long-term care insurance projections where we migrated to a new modeling system 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 have historically used. During or after the implementation of these enhancements, we may discover errors or other deficiencies in existing models, assumptions and/or methodologies. Moreover, we may either use additional, more granular and more detailed information we expect to receive through enhancements in our reserving and other processes or we may employ more simplified approaches in the future, either of which may cause us to refine or otherwise change existing assumptions and/or methodologies and thus associated reserve levels, which in turn could have a material adverse impact on our business, results of operations and financial condition.

**We may be required to increase our reserves in our long-term care insurance, life insurance and/or annuity businesses as a result of 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 estimated claims and payment patterns, using assumptions for, among other things, projected interest rates and investment returns, morbidity rates, mortality rates, 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 prove to be 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 valuation 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 valuation 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. Moreover, changes in the assumptions we use can have a material adverse effect on our results of operations. 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.

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For example, we completed our annual review of assumptions for our long-term care and life insurance products in the third and fourth quarters of 2016, respectively. During the third quarter of 2016, we reviewed our long-term care claim reserve assumptions and 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 of \$283 million for the third quarter of 2016. During the fourth quarter of 2016, we reviewed and made changes to our life insurance assumptions predominantly impacting mortality experience in older age populations. As a result of these changes, we recorded an after-tax charge of \$196 million in the fourth quarter of 2016. See Part II Item 7 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 and fourth quarters of 2016, may also, among other things, limit our ability to execute our alternative strategic plans if the proposed transaction with China Oceanwide is not completed; reduce our liquidity; and adversely impact our debt or financial strength ratings. Any of these results could have a material adverse impact on our business, results of operations and financial condition.

The risk that our claims experience may differ significantly from our valuation 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.

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. Our long-term care insurance business, excluding the acquired block, has positive margin and is highly dependent on the assumptions we have regarding our ability to successfully implement our in-force management strategy involving premium increases or reduced benefits. As of December 31, 2016, the assumption for future anticipated rate actions increased our long-term care insurance margin by approximately \$7.3 billion. For our long-term care insurance block, excluding the acquired block, any adverse changes in assumptions would only be reflected in net income (loss) to the extent the margin was reduced below zero. The margin of our long-term care insurance block, excluding the acquired block, decreased from approximately \$2.5 billion to \$3.0 billion as of December 31, 2015 to approximately \$0.8 billion to \$1.3 billion as of December 31, 2016 primarily from higher expected future claim costs driven mostly by claim assumption updates impacting claim termination and benefit utilization rates, partially offset by the impact of anticipated premiums driven mostly by future in-force rate actions. Our assumptions are sensitive to slight variability in actual experience and small changes in assumptions could result in the margin of our long-term care insurance block, excluding the acquired block to decrease to at/or below zero in future years. To the extent, based on reviews, our margin is negative, we would 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. Since the fourth quarter of 2014, we have

included future planned rate actions in our loss recognition testing in addition to those rate actions that have already been

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filed and approved or are awaiting regulatory approval. There is no guarantee that we will be able to obtain regulatory approval for the future rate actions we have assumed in connection with our loss recognition testing. Favorable impacts on our margin from rate actions would primarily impact our long-term care insurance block, excluding the acquired block. Our acquired block would not benefit significantly from additional rate actions as it is older. For our acquired block of long-term care insurance, the impacts of any adverse changes in assumptions are more likely to be immediately reflected in net income (loss) as our margin for this block was zero after the reserve increase in the fourth quarter of 2014 and had a margin of approximately \$200 million and \$10 million as of December 31, 2016 and 2015, respectively.

As part of our annual loss recognition testing, we also review assumptions for incidence and interest rates, among other assumptions. We 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 described above. In addition, we will also continue to monitor our experience and assumptions closely and make changes to our assumptions and methodologies, as appropriate, for other U.S. life insurance products.

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 RBC 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. The New York Department of Financial Services, which regulates our New York domiciled insurance subsidiary, has historically not permitted 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. In 2016, the New York Department of Financial Services permitted us to aggregate the cash flow testing results of our long-term care insurance products with other products; however, there is no guarantee it will permit aggregation in the future. 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 and \$39 million of additional statutory reserves in the fourth quarters of 2015 and 2014, respectively. Our cash flow testing results in the fourth quarter of 2016 did not require any additional statutory reserves; however, we currently expect to record an aggregate of approximately \$110 million of additional statutory reserves over the next two years. As a part of our cash flow testing process for our non-New York domiciled life insurance subsidiaries, we consider incremental benefits from expected further premium rate actions that would help mitigate the impact of reserve increases. There is no guarantee that we will be able to obtain regulatory approval for the future rate actions we assumed in connection with our cash flow testing. For additional information regarding impacts to statutory capital as a result of reserve increases, see An adverse change in our regulatory requirements, including risk-based capital, could have a material adverse impact on our results of operations, financial condition and business.

As of December 31, 2016 and 2015, we also established \$76 million and \$198 million, respectively, 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. In addition, our Virginia licensed life insurance subsidiary currently expects to record approximately \$95 million of additional statutory reserves in each of the next two years.

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

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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 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 these health 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.

The risk that our lapse experience may differ significantly from our valuation 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, where approval is required. 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.

**We may be required to accelerate the amortization of deferred acquisition costs and the present value of future profits, which would increase our expenses and reduce profitability.**

DAC represents costs related to the successful acquisition of our insurance policies and investment contracts, which are deferred and amortized over the estimated life of the related insurance policies and investment contracts. These costs primarily consist of commissions in excess of ultimate renewal commissions and underwriting and contract and



policy issuance expenses incurred on policies and contracts successfully acquired. Under U.S. GAAP, DAC is subsequently amortized to income, over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits. In addition, when we acquire a block of insurance policies or investment contracts, we assign a portion of the purchase price to the right to

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receive future net cash flows from the acquired block of insurance and investment contracts and policies. This intangible asset, called present value of future profits ( PVFP ), represents the actuarially estimated present value of future cash flows from the acquired policies. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our amortization of DAC and PVFP generally depends upon, among other items, anticipated profits from investments, surrender and other policy and contract charges, mortality, morbidity and maintenance expense margins. Unfavorable experience with regard to expected expenses, investment returns, mortality, morbidity, withdrawals or lapses may cause us to increase the amortization of DAC or PVFP, or both, or to record a charge to increase benefit reserves, and such increases could be material.

We regularly review DAC and PVFP to determine if they are recoverable from future income. If these costs are not recoverable, they are charged as expenses in the financial period in which we make this determination. For example, if we determine that we are unable to recover DAC from profits over the life of a block of insurance policies or annuity contracts, or if withdrawals or surrender charges associated with early withdrawals do not fully offset the unamortized acquisition costs related to those policies or annuities, we would be required to recognize the additional DAC amortization as an expense in the current period. Equity market volatility could result in losses in our variable annuity products and associated hedging program which could challenge our ability to recover DAC on these products and could lead to further write-offs of DAC.

For additional information on DAC and PVFP, 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 Deferred acquisition costs and Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Present value of future profits.

**When we have projected profits in earlier years followed by projected losses in later years (as is currently the case with our long-term care insurance business), we are required to increase our reserve liabilities over time to offset the projected future losses, which could adversely affect our results of operations and financial condition.**

We calculate and maintain reserves for estimated future payments of claims to our policyholders and contractholders in accordance with U.S. GAAP and industry accounting practices. When we conclude that our reserves are insufficient by line of business to cover actual or expected policy and contract benefits and claim payments as a result of changes in experience, assumptions or otherwise, we are required to increase our reserves and incur charges in the period in which we make the determination. For certain long-duration products in our U.S. Life Insurance segment, we are also required to accrue additional reserves over time when the overall reserve is adequate by line of business, but profits are projected in earlier years followed by losses projected in later years. When this pattern of profits followed by losses exists for these products, and we determine that an additional reserve liability is required, we increase reserves in the years we expect to be profitable by the amounts necessary to offset losses projected in later years.

In our long-term care insurance products, projected profits followed by projected losses are anticipated to occur because U.S. GAAP requires that original assumptions be used in determining reserves for future policy claims unless and until a premium deficiency exists. Our existing locked-in reserve assumptions do not include assumptions for premium rate increases, which if included in reserves, could reduce or eliminate future projected losses. As a result of this pattern of projected profits followed by projected losses, we are required to accrue additional future policy benefit reserves in the profitable years, currently expected to be through approximately 2032 (before accruing for the additional liability), by the amounts necessary to offset losses in later years. As of December 31, 2016 and 2015, we accrued future policy benefit reserves of \$30 million and \$13 million, respectively, in our consolidated balance sheet

for profits followed by losses in our long-term care insurance business. The amount of future increases in reserves may be significant and this could materially adversely affect our results of operations and financial condition. For additional information, including the significant historical

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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.

**Our valuation of fixed maturity, equity and trading securities uses methodologies, estimations and assumptions that are subject to change and differing interpretations which could result in changes to investment valuations that may materially adversely affect our results of operations and financial condition.**

We report fixed maturity, equity and trading securities at fair value on our consolidated balance sheets. These securities represent the majority of our total cash, cash equivalents and invested assets. Our portfolio of fixed maturity securities consists primarily of investment grade securities. Valuations use inputs and assumptions that are less observable or require greater estimation, as well as valuation methods that are more complex or require greater estimation, thereby resulting in values that are less certain and may vary significantly from the value at which the investments may be ultimately sold. The methodologies, estimates and assumptions we use in valuing our investment securities evolve over time and are subject to different interpretation (including based on developments in relevant accounting literature), all of which can lead to changes in the value of our investment securities. Rapidly changing and unanticipated interest rate, external macroeconomic, credit and equity market conditions could materially impact the valuation of investment securities as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

### **Risks Relating to Economic, Market and Political Conditions**

**Downturns and volatility in global economies and equity and credit markets could materially adversely affect our business and results of operations.**

Our results of operations are materially affected by the state of the global economies in which we operate and conditions in the capital markets we access. Factors such as high unemployment, low consumer spending, low business investment, high government spending, home price appreciation, the volatility and strength of the global capital markets, and inflation all affect the business and economic environment and, ultimately, the demand for and terms of our products and results of operations of our business. The recessionary state and the volatility of many economies in the past have fueled uncertainty and downturns in global mortgage markets and have contributed to increased volatility in our business and results of operations. This uncertainty and volatility has impacted, and may impact in the future, the demand for certain financial and insurance products. As a result, we may experience an elevated incidence of claims and lapses or surrenders of policies, and some of our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether.

Rising unemployment or underemployment rates can, for example, negatively impact a borrower's ability to pay his or her mortgage, thereby increasing the likelihood that we could incur additional losses in our mortgage insurance businesses. We set loss reserves for our mortgage insurance businesses based in part on expected claims and delinquency cure rate patterns. These expectations reflect our assumptions regarding unemployment and underemployment levels. If unemployment levels are higher than those within our loss reserving assumptions, the claims frequency and severity for our mortgage insurance businesses could be higher than we had projected. In addition, a return to low or negative home prices, coupled with weakened economic conditions, could cause further increases in our incurred losses and related loss ratios. Our loss experience may also increase as policies continue to age. If the claim frequency on the risk in-force significantly exceeds the claim frequency that was assumed in setting premium rates, our financial condition, results of operations and cash flows would be materially adversely affected.

Downturns and volatility in equity markets may also cause some existing customers to withdraw cash values or reduce investments in our separate account products, which include variable annuities. In addition, if the performance of the underlying mutual funds in our separate account products experience downturns and volatility for an extended period of time, the payment of any living benefit guarantee available in certain variable annuity

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products may have an adverse effect on us, because more payments will be required to come from general account assets than from contractholder separate account investments. Continued equity market volatility could result in additional losses in our variable annuity products and associated hedging program, which will further challenge our ability to recover DAC on these products and could lead to additional write-offs of DAC, as well as increased hedging costs.

**Interest rates and changes in rates could materially adversely affect our business and profitability.**

Our insurance and investment products are sensitive to interest rate fluctuations and expose us to the risk that falling interest rates or credit spreads will reduce our margin or 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. We may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and some contracts have guaranteed minimum interest crediting rates. As a result, historically low interest rates over the last few years have adversely impacted, and may continue to materially adversely impact, our business and profitability.

During periods of increasing market interest rates, we may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased policy surrenders, withdrawals from life insurance policies and annuity contracts and requests for policy loans, as policyholders and contractholders shift assets into higher yielding investments. Therefore, increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on our financial condition and results of operations, including the requirement to liquidate investments in an unrealized loss position to satisfy surrenders or withdrawals.

Our life insurance, long-term care insurance and fixed annuity 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 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 have, and may further, adversely affect the profitability of our life insurance, long-term care insurance and fixed annuity products, as well as increase hedging costs on our in-force block of variable annuity products. A low interest rate environment negatively impacts the sufficiency of our margins on both our DAC and PVFP. If interest rates remain low for a prolonged period, this could result in an impairment of these assets, and may reduce funds available to pay claims, including life and long-term care insurance claims, requiring an increase in our reserve liabilities, which could be significant (as has been the case with our long-term care insurance business in the past). In addition, certain statutory capital requirements are based on models that consider interest rates. Prolonged periods of low interest rates may increase the statutory reserves we are required to hold as well as the amount of assets and capital we must maintain to support amounts of statutory reserves. In addition, our insurance and annuity products are sensitive to inflation rate fluctuations. For example, a sustained increase in the inflation rate may result in an increase in nominal market interest rates. A failure to accurately anticipate higher inflation and factor it into our product pricing assumptions may result in mispricing of our products, which could materially and adversely impact our results of operations.

In certain products, in particular our long-term care and term universal life insurance products, the average life of our assets is considerably shorter than the average life of the liabilities. This increases our reinvestment rate risk with respect to the assets. Should interest rates remain low or go lower, this will cause our net investment income to be lower which will negatively impact the profitability of our businesses. In addition, to the extent the assets are of a shorter average life than the liabilities (especially as is the case with our long-term care insurance products), changes

in interest rates will impact assets and liabilities differently. As interest rates decline, the net present value of the liabilities will therefore increase more than the net present value of the assets and could require us to hold higher reserves.

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In both the U.S. and international mortgage markets, rising interest rates generally reduce the volume of new mortgage originations. A decline in the volume of new mortgage originations would have an adverse effect on our new insurance written. Rising interest rates also can increase the monthly mortgage payments for insured homeowners with adjustable rate mortgages ( ARMs ) that could have the effect of increasing default rates on ARM loans, thereby increasing our exposure on our mortgage insurance policies. This is particularly relevant in our international mortgage insurance businesses where ARMs are the predominant mortgage product. Higher interest rates can lead to an increase in defaults as borrowers at risk of default will find it harder to qualify for a replacement loan.

Declining interest rates historically have increased the rate at which borrowers refinance their existing mortgages, thereby resulting in cancellations of the mortgage insurance covering the refinanced loans. Declining interest rates historically have also contributed to home price appreciation, which may provide borrowers in the United States with the option of cancelling their mortgage insurance coverage earlier than we anticipated when pricing that coverage. These cancellations could have a material adverse effect on the results of our U.S. mortgage insurance business.

Interest rate fluctuations could impact our capital or solvency ratios specifically in our international mortgage insurance businesses where the required or available capital could be adversely impacted by increases in interest rates.

Interest rate fluctuations could also have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates like over the past few years, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we have had to, and in the future may have to, 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. Issuers of fixed-income securities have also, and in the future may also decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. During periods of increasing interest rates, market values of lower-yielding assets will decline. In addition, our interest rate hedges could decline which would require us to post additional collateral with our derivative counterparties.

Posting this collateral could materially adversely affect our financial condition and results of operation by reducing our liquidity and net investment income, to the extent that the additional collateral posting requires us to invest in higher-quality, lower-yielding investments.

See Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk for additional information about interest rate risk.

### **A deterioration in economic conditions or a decline in home prices may adversely affect our loss experience in our mortgage insurance businesses.**

Losses in our mortgage insurance businesses generally result from events, such as a borrower's reduction of income, unemployment, underemployment, divorce, illness, inability to manage credit, or a change in interest rate levels or home values, that reduce a borrower's willingness or ability to continue to make mortgage payments. The amount of the loss we suffer, if any, depends in part on whether the home of a borrower who defaults on a mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. A deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values, which increases our risk of loss. A decline in home prices, whether or not in conjunction with deteriorating economic conditions, may also increase our risk of loss. Furthermore, our estimates of claims-paying resources and claim obligations are based on various assumptions, which include the timing of the receipt of claims on loans in our delinquency inventory and future claims that we anticipate will ultimately be received, our anticipated loss mitigation activities, premiums, housing prices and unemployment rates. These



assumptions are subject to inherent uncertainty and require judgment by management.

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In the past, the United States, in particular, experienced an economic slowdown and saw a pronounced weakness in its housing markets, as well as declines in home prices. This slowdown and the resulting impact on the housing markets have been reflected in past elevated level of delinquencies. Ongoing delays in foreclosure processes could cause our losses to increase as expenses accrue for longer periods or if the value of foreclosed homes further decline during such delays. If we experience an increase in the number or the cost of delinquencies that are higher than expected, our financial condition and results of operations could be adversely affected.

In Canada and the United States, historically lower commodity prices, particularly oil, have resulted in a rise in unemployment in certain regions. The lower commodity prices also resulted in rising unemployment in commodity-dependent regions in Australia. The adverse economic conditions in these regions could continue to deteriorate and could impact the broader economies in those countries as well as the global economy, resulting in higher delinquencies as well as declines in home prices, which could have an unfavorable impact on the results of our operations for those businesses affected.

### **We have significant international operations that could be adversely affected by changes in political or economic stability or government policies where we operate.**

Global economic and regulatory developments could affect our business in many ways. For example, our international operations are subject to local laws and regulations, which in many ways are similar to the U.S. state laws and regulations outlined below. Many of our international customers and independent sales intermediaries also operate in regulated environments. Changes in the regulations that affect their operations also may affect our business relationships with them and their ability to purchase or to distribute our products. These changes could have a material adverse effect on our financial condition and results of operations. In addition, compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition and results of operations.

Local, regional and global economic conditions, including changes in housing markets, employment levels, government benefit levels, credit markets, trade levels, inflation, recession and currency fluctuations, as discussed above, also could have a material adverse effect on our international businesses. Political changes, some of which may be disruptive, can also interfere with our customers and all of our activities in a particular location. Attempts to mitigate these risks can be costly and are not always successful.

Our international businesses and operations are subject to the tax laws and regulations, and value added tax and other indirect taxes, in the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation and regulations that could increase the amount of taxes that we pay or impact the sales of our products. An increase to tax rates in the countries in which we operate could have a material adverse effect on our financial condition and results of operations.

### **Fluctuations in foreign currency exchange rates and international securities markets could negatively affect our financial condition and results of operations.**

The results of our international operations are denominated in local currencies, and because we derive a significant portion of our income from our international operations, our results of operations could be adversely affected to the extent the dollar value of foreign currencies is reduced due to a strengthening of the U.S. dollar. We generally invest cash generated by our international operations in securities denominated in local currencies. As of December 31, 2016 and 2015, approximately 10% and 9%, respectively, of our invested assets were held by our international operations and were invested primarily in non-U.S.-denominated securities. Although investing in securities denominated in local

currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our international operations into our consolidated financial statements. We currently do not hedge this exposure, other than for dividend and other expected cash payments from our Canadian and Australian mortgage insurance businesses, and, as a result, period-to-period comparability of our results of operations is

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affected by fluctuations in exchange rates. Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non-U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the United States. Fluctuations in foreign currency exchange rates could have a material adverse effect on our financial condition and results of operations.

See Part II Item 7A Quantitative and Qualitative Disclosures About Market Risk for additional information about interest rate risk.

## **Regulatory and Legal Risks**

### **Our insurance businesses are extensively regulated and changes in regulation may reduce our profitability and limit our growth.**

Our insurance operations are subject to a wide variety of laws and regulations and are extensively regulated. State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. Our international operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are domiciled. Failure to comply with applicable regulations or to obtain or maintain appropriate authorizations or exemptions under any applicable laws could result in restrictions on our ability to do business or engage in activities regulated in one or more jurisdictions in which we operate and could subject us to fines and other sanctions which could have a material adverse effect on our business. In addition, the nature and extent of regulation of our activities in applicable jurisdictions could materially change causing a material adverse effect on our business.

Insurance regulatory authorities in the United States and internationally have broad administrative powers, which at times, are coordinated and communicated across regulatory bodies. These administrative powers include, but are not limited to:

licensing companies and agents to transact business;

calculating the value of assets and determining the eligibility of assets to determine compliance with statutory requirements;

mandating certain insurance benefits;

regulating certain premium rates;

reviewing and approving policy forms;

regulating discrimination in pricing and coverage terms and unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and

payment of inducements;

establishing and revising statutory capital and reserve requirements and solvency standards;

fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

approving future rate increases and/or benefit reductions;

evaluating enterprise risk to an insurer;

approving changes in control of insurance companies;

restricting the payment of dividends and other transactions between affiliates;

regulating the types, amounts and valuation of investments;

restricting the types of insurance products that may be offered; and

imposing insurance eligibility criteria.

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State insurance regulators and the NAIC regularly re-examine existing laws and regulations, specifically focusing on modifications to SAP, interpretations of existing laws and the development of new laws and regulations applicable to insurance companies and their products. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements. Further, because laws and regulations can be complex and sometimes inexact, there is also a risk that any particular regulator's or enforcement authority's interpretation of a legal, accounting or reserving issue may change over time to our detriment, or expose us to different or additional regulatory risks. The application of these regulations and guidelines by insurers involves interpretations and judgments that may differ from those of state insurance departments. We cannot provide assurance that such differences of opinion will not result in regulatory, tax or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase levels of statutory capital and reserves or incur higher operating costs and/or have implications on certain tax positions.

In addition, the FHFA, the regulatory body of the Federal Home Loan Banks ( FHLBs ), began exploring changes to federal regulations in December 2010, augmented by an additional proposed advisory bulletin in 2012 on FHLB lending to insurers. The FHFA published a proposed rule amending its regulation of FHLB membership on September 12, 2014, and issued its final rule on FHLB membership on January 12, 2016, with an effective date of February 19, 2016. FHLB membership provides a low-cost alternative funding source for our businesses. Changes in these laws and regulations, or in interpretations thereof in the United States, can be made for the benefit of the consumer, or for other reasons, at the expense of the insurer and thus could have a material adverse effect on our financial condition and results of operations. These FHFA regulations also impose general eligibility requirements for FHLB membership which, if not met, would render an institution ineligible for FHLB membership. Under these provisions an insurance company member must, among other things, meet certain financial condition requirements under the FHFA regulations. The FHLB could determine that the financial condition of one of our insurers is such that the FHLB deems it is not safe to make advances to the insurer, which would effectively eliminate a funding source for our businesses.

Regulators in the United States and internationally have developed criteria under which they are subjecting non-bank financial companies, including insurance companies, that are deemed systemically important to higher regulatory capital requirements and stricter prudential standards. Although neither we nor any of our subsidiaries have been designated systemically important, we cannot predict whether we or any of our subsidiaries will be deemed systemically important in the future or how such a designation would impact our business, results of operations, cash flows or financial condition.

### **Litigation and regulatory investigations or other actions are common in the insurance business and may result in financial losses and harm our reputation.**

We face the risk of litigation and regulatory investigations or other actions in the ordinary course of operating our businesses, including 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 and life insurance premiums, payment of contingent or other sales commissions, claims payments and procedures, cancellation or rescission of coverage, product design, product disclosure, product administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services,

violations of RESPA or related state anti-inducement laws and breaching fiduciary or other duties to customers. In our investment-related operations, we are subject to litigation

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involving commercial disputes with counterparties. 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. Plaintiffs in class action and other lawsuits against us, as well as regulators, may seek very large or indeterminate amounts, which may remain unknown for substantial periods of time.

We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships and we are currently subject to a shareholder putative class action lawsuit alleging securities law violations.

A substantial legal liability or a significant regulatory action (including uncertainty about the outcome of pending legal and regulatory investigations and actions) against us could have a material adverse effect on our 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 and incur significant legal expenses, which could have a material adverse effect on our business, financial condition or results of operations. At this time, it is not feasible to predict, nor determine, the ultimate outcomes of any pending investigations and legal proceedings, nor to provide reasonable ranges of possible losses other than those that have been disclosed.

For a further discussion of certain current investigations and proceedings in which we are involved, see note 21 in Part II Item 8 Financial Statements and Supplementary Data. We cannot assure you that these investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. It is also possible that we could become subject to further investigations and have lawsuits filed or enforcement actions initiated against us. In addition, increased regulatory scrutiny and any resulting investigations or legal proceedings could result in new legal precedents and industry-wide regulations or practices that could materially adversely affect our business, financial condition and results of operations.

### **As holding companies, we and Genworth Holdings depend on the ability of our respective subsidiaries to pay dividends and make other payments and distributions to each of us and to meet our obligations.**

We and Genworth Holdings each act as a holding company for our respective subsidiaries and do not have any significant operations of our own. Dividends from our respective subsidiaries, permitted payments to us under tax sharing and expense reimbursement arrangements with our subsidiaries and proceeds from borrowings are our principal sources of cash to meet our obligations. These obligations include operating expenses and interest and principal on current and any future borrowings and amounts owed to GE under the Tax Matters Agreement. If the cash we receive from our respective subsidiaries pursuant to dividends and tax sharing and expense reimbursement arrangements is insufficient to fund any of these obligations, or if a subsidiary is unable or unwilling for any reason to pay dividends to either of us, we or Genworth Holdings may be required to raise cash through, among other things, the incurrence of debt (including convertible or exchangeable debt), the sale of assets or the issuance of equity.

The payment of dividends and other distributions by our insurance subsidiaries is dependent on, among other things, the performance of the subsidiaries, is subject to corporate law restrictions, and is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by the insurance subsidiaries (such as a payment under a tax sharing agreement or for employee or other services) if they determine that such payment could be adverse to policyholders or contractholders. Moreover, as a consequence of our recent adverse financial results, the regulators who have governance over our international mortgage insurance subsidiaries may impose additional restrictions over such subsidiaries using the broad prudential authorities available to the major regulators. Courts typically grant regulators significant deference when considering



challenges of an insurance company to a determination by insurance regulators to grant or withhold approvals with respect to dividends and other distributions.

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In addition, as a public company that is traded on the TSX, Genworth Canada is subject to securities laws and regulations in each province in Canada, as well as the rules of the TSX. These applicable laws, regulations and rules include but are not limited to, obligations and procedures in respect of the equal and fair treatment of all shareholders of Genworth Canada. Although the board of directors of Genworth Canada is composed of a majority of Genworth nominees, under Canadian law each director has an obligation to act honestly and in good faith with a view to the best interests of Genworth Canada. Moreover, as a public company that is traded on the ASX, Genworth Australia and its subsidiaries are subject to Australian securities laws and regulations, as well as the rules of the ASX. These applicable laws, regulations and rules include but are not limited to, obligations and procedures in respect of the equal and fair treatment of all shareholders of Genworth Australia. Although the board of directors of Genworth Australia is currently composed of a majority of Genworth designated directors, under Australian law each director has an obligation to exercise their powers and discharge their duties in good faith in the best interests of Genworth Australia and for a proper purpose. Accordingly, actions taken by Genworth Canada and Genworth Australia and their respective boards of directors (including the payment of dividends to us) are subject to, and may be limited by, the laws, regulations and rules applicable to such entities.

We expect our international subsidiaries to be the sole source of cash dividends paid to us in 2017 as we continue to strengthen the capital position of our U.S. life insurance and U.S. mortgage insurance businesses, and therefore our liquidity and capital positions are particularly dependent on the performance of those subsidiaries and their ability to pay dividends to us as anticipated.

**An adverse change in our regulatory requirements, including risk-based capital, could have a material adverse impact on our results of operations, financial condition and business.**

Our U.S. life insurance subsidiaries are subject to the NAIC's RBC standards and other minimum statutory capital and surplus requirements imposed under the laws of their respective states of domicile. The failure of our insurance subsidiaries to meet applicable RBC requirements or minimum statutory capital and surplus requirements could subject our insurance subsidiaries to further examination or corrective action imposed by state insurance regulators, including limitations on their ability to write additional business, or the addition of state regulatory supervision, rehabilitation, seizure or liquidation.

Our U.S. mortgage insurers are not subject to the NAIC's RBC requirements but are required by certain states and other regulators to maintain a certain risk-to-capital ratio. In addition, PMIERS include revised financial requirements for mortgage insurers under which a mortgage insurer's Available Assets (generally only the most liquid assets of an insurer) must meet or exceed Minimum Required Assets (which are based on an insurer's risk-in-force and are calculated from tables of factors with several risk dimensions and are subject to a floor amount). The failure of our U.S. mortgage insurance subsidiaries to meet their regulatory requirements, and additionally the PMIERS financial requirements, could limit our ability to write new business. For further discussion of the importance of financial requirements to our U.S. mortgage insurance subsidiaries, see [Item 1](#). If we are unable to meet the requirements mandated by PMIERS because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we currently have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition and [Item 1](#). Our U.S. mortgage insurance subsidiaries are subject to minimum statutory capital requirements and hazardous financial condition standards which, if not met or waived, would result in restrictions or prohibitions on our doing business and could have a material adverse impact on our results of operations.

Additionally, our international insurance subsidiaries also have minimum regulatory requirements which vary by country. For example, the Canadian regulator, OSFI, released a new regulatory capital framework for mortgage

insurers that was effective January 1, 2017, replacing OSFI's current advisory, Interim Capital Requirements for Mortgage Insurance Companies, which had been in effect since January 2015.

An adverse change in our RBC, risk-to-capital ratio or other minimum regulatory requirements also could cause rating agencies to downgrade the financial strength ratings of our insurance subsidiaries and the credit

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ratings of Genworth Holdings, which would have an adverse impact on our ability to write and retain business and could cause regulators to take regulatory or supervisory actions with respect to our businesses, all of which could have a material adverse effect on our results of operations, financial condition and business.

**Fannie Mae, Freddie Mac and a small number of large mortgage lenders exert significant influence over the U.S. mortgage insurance market and changes to the role or structure of Freddie Mac or Fannie Mae could have a material adverse impact on our U.S. mortgage insurance business.**

Our U.S. mortgage insurance products protect mortgage lenders and investors from default-related losses on residential first mortgage loans made primarily to home buyers with high loan-to-value mortgages, generally, those home buyers who make down payments of less than 20% of their home's purchase price. Fannie Mae's and Freddie Mac's charters generally prohibit them from purchasing any mortgage with a face amount that exceeds 80% of the home's value, unless that mortgage is insured by a qualified insurer or the mortgage seller retains at least a 10% participation in the loan or agrees to repurchase the loan in the event of default. The provisions in Fannie Mae's and Freddie Mac's charters create much of the demand for private mortgage insurance in the United States. High loan-to-value mortgages purchased by Fannie Mae or Freddie Mac generally are insured with private mortgage insurance. We believe the rate of mortgages purchased by Fannie Mae and Freddie Mac has increased the market size for private flow mortgage insurance during recent years. However, while Fannie Mae's and Freddie Mac's purchase activity increased in recent years, mortgage insurance penetration did not increase proportionately due to a combination of tighter mortgage insurance guidelines and the impact of GSE loan-level pricing on high loan-to-value loans. Changes by the GSEs in underwriting requirements or pricing terms on mortgage purchases could adversely affect the market size for private mortgage insurance. Fannie Mae and Freddie Mac are subject to regulatory oversight by the U.S. Department of Housing and Urban Development Administration and the FHFA. Any change in the charter provisions of the GSEs or other statutes or regulations relating to their mortgage acquisition activity or changes in the way the GSEs seek to comply with their charter requirements could have a material adverse effect on our financial condition and results of operations.

An increase in consolidation among mortgage lenders may result in significant customer concentration for U.S. mortgage insurers. Fannie Mae, Freddie Mac and the largest mortgage lenders possess substantial market power, which enables them to influence our business and the mortgage insurance industry in general. Although we actively monitor and develop our relationships with Fannie Mae, Freddie Mac and our largest mortgage lending customers, a deterioration in any of these relationships, or the loss of business or opportunities for new business from any of our key customers, could have a material adverse effect on our financial condition and results of operations.

**If we are unable to meet the requirements mandated by PMIERS because the GSEs amend them or the GSEs interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.**

In furtherance of their respective charter requirements as noted above, each GSE adopted PMIERS effective December 31, 2015. The PMIERS include revised financial requirements for mortgage insurers under which a mortgage insurer's Available Assets (generally only the most liquid assets of an insurer) must meet or exceed Minimum Required Assets (which are based on an insurer's risk-in-force and are calculated from tables of factors with several risk dimensions and are subject to a floor amount) and otherwise generally establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the respective GSE for acquisition of high loan-to-value mortgages. The GSEs may amend or waive PMIERS at their discretion.

The amount of capital that may be required in the future to maintain the Minimum Required Assets, as defined in PMIERS, and operate our business is dependent upon, among other things: (i) the way PMIERS are applied and interpreted by the GSEs and FHFA as and after they are implemented; (ii) the future performance of the U.S. housing market; (iii) our generation of earnings in our U.S. mortgage insurance business, available

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assets and risk-based required assets (including as they relate to the fluctuating value of the shares of our Canadian mortgage insurance subsidiary that are owned by our U.S. mortgage insurance business as a result of share price and foreign exchange movements or otherwise), reducing risk in-force and reducing delinquencies as anticipated, and writing anticipated amounts and types of new U.S. mortgage insurance business; and (iv) our overall financial performance, capital and liquidity levels. Depending on our actual experience, the amount of capital required under PMIERS for our U.S. mortgage insurance business may be higher than currently anticipated. In the absence of a premium increase, if we hold more capital relative to insured loans, our returns will be lower. We may be unable to increase premium rates for various reasons, principally due to competition. Our inability, on the other hand, to increase the capital as required in the anticipated timeframes and on the anticipated terms, and to realize the anticipated benefits, could have a material adverse impact on our business, results of operations and financial condition. More particularly, our ability to meet the PMIERS financial requirements and maintain a prudent amount of capital in excess of those requirements, given the dynamic nature of asset and requirement valuations over time, is dependent upon, among other things: (i) our ability to complete reinsurance transactions on our anticipated terms and timetable, which are subject to market conditions, third-party approvals and other actions (including approval by regulators and the GSEs), and other factors which are outside of our control; and (ii) our ability to contribute holding company cash or other sources of capital to satisfy the portion of the financial requirements that are not satisfied through reinsurance transactions. In addition, another potential capital source includes, but is not limited to, the issuance of securities by Genworth Financial or Genworth Holdings, which could materially adversely impact our business, shareholders and debtholders.

Our assessment of PMIERS compliance is based on a number of factors, including current affiliate asset valuations under PMIERS and our understanding of the GSEs' interpretation of the PMIERS financial requirements. Although we believe we have sufficient capital in our U.S. mortgage insurance business as required under PMIERS and we remain an approved insurer, there can be no assurance these conditions will continue. In addition, there can be no assurance we will continue to meet the conditions contained in the GSE letters granting PMIERS credit for reinsurance including, but not limited to, our ability to remain below a statutory risk-to-capital ratio of 18:1. The GSEs also reserve the right to reevaluate the credit for reinsurance available under PMIERS. If we are unable to meet PMIERS requirements as interpreted or amended by the GSEs we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.

**Our U.S. mortgage insurance subsidiaries are subject to minimum statutory capital requirements and hazardous financial condition standards which, if not met or waived, would result in restrictions or prohibitions on our doing business and could have a material adverse impact on our results of operations.**

Certain states have insurance laws or regulations which require a mortgage insurer to maintain a minimum amount of statutory capital relative to its level of risk in-force. While formulations of minimum capital vary in certain states, the most common measure applied allows for a maximum permitted risk-to-capital ratio of 25:1. If one of our U.S. mortgage insurance subsidiaries that is writing business in a particular state fails to maintain that state's required minimum capital level, we would generally be required to immediately stop writing new business in the state until the insurer re-establishes the required level of capital or receives a waiver of the requirement from the state's insurance regulator, or until we establish an alternative source of underwriting capacity acceptable to the regulator. As of December 31, 2016 and 2015, GMICO's risk-to-capital ratio was approximately 14.5:1 and 16.4:1, respectively. While it is our expectation that our U.S. mortgage insurance business will continue to meet its regulatory capital requirements, should GMICO in the future exceed required risk-to-capital levels, we would seek required regulatory and GSE forbearance and approvals or seek approval for the utilization of alternative insurance vehicles. However, there can be no assurance if, and on what terms, such forbearance and approvals may be obtained.

Our U.S. mortgage insurance subsidiaries hold certain affiliate assets including, but not limited to, investments in the common stock of Genworth Canada, which are included in our reported statutory capital of

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our U.S. mortgage insurance subsidiaries. The statutory reported value of the Canadian mortgage insurance investment is subject to the operating performance of that affiliate as well as changes in foreign exchange rates and mark-to-market valuation on its investment portfolios. The exposure to foreign currency exchange rates is not currently hedged and, hence, the statutory capital of our U.S. mortgage insurance subsidiaries and their statutory risk-to-capital ratio may fluctuate because of variances in future reported values. In addition, if the NCDOI decreases or no longer permits the admissibility of all or a portion of these affiliate assets, this could have a material adverse impact on the statutory capital and business of our U.S. mortgage insurance subsidiaries.

In addition to the minimum statutory capital requirements, our U.S. mortgage insurance business is subject to standards by which insurance regulators in a particular state evaluate the financial condition of the insurer. Typically, regulators are required to evaluate specified criteria to determine whether or not a company may be found to be in hazardous financial condition, in which event restrictions on the business may be imposed. Among these criteria are formulas used in assessing trends relating to statutory capital. We can provide no assurance as to whether or when a regulator may make a determination of hazardous financial condition for one or more of our mortgage insurance subsidiaries. Such a determination could likely lead to restrictions or prohibitions on our doing business in that state and could have a material adverse impact on results of operations depending on the number of states involved.

The NAIC established the MGIWG to determine and make recommendations to the NAIC's Financial Condition Committee as to what, if any, changes to make to the solvency and other regulations relating to mortgage guaranty insurers. During 2014 and 2015, the MGIWG published revised drafts of the previously proposed amendments of the MGI Model and solicited comments on these revised proposed amendments. The proposed amendments of the MGI Model relate to, among other things: (i) capital and reserve standards, including increased minimum capital and surplus requirements, mortgage guaranty-specific RBC standards, dividend restrictions and contingency and premium deficiency reserves; (ii) limitations on the geographic concentration of mortgage guaranty risk, including state-based limitations; (iii) restrictions on mortgage insurers' investments in notes secured by mortgages; (iv) prudent underwriting standards and formal underwriting guidelines to be approved by the insurer's board; (v) the establishment of formal, internal Mortgage Guaranty Quality Control Programs with respect to in-force business; (vi) prohibitions on reinsurance with bank captive reinsurers; and (vii) incorporation of an NAIC Mortgage Guaranty Insurance Standards Manual. The MGIWG continued to make revisions to the MGI Model in 2016. At this time, we cannot predict the outcome of this process, the effect changes, if any, will have on the mortgage guaranty insurance market generally, or on our businesses specifically, the additional costs associated with compliance with any such changes, or any changes to our operations that may be necessary to comply, any of which could have a material adverse effect on our business, results of operations or financial condition. We also cannot predict whether other regulatory initiatives will be adopted or what impact, if any, such initiatives, if adopted as laws, may have on our business, results of operations or financial condition.

In September 2008, the FHFA was appointed conservator of the GSEs. We expect there will be ongoing examination by the U.S. Congress and the Trump Administration of the role of the GSEs in the U.S. housing market. If legislation is enacted that reduces or eliminates the need for the GSEs to obtain credit enhancement on above 80% loan-to-value loans or that otherwise reduces or eliminates the role of the GSEs in single-family housing finance, the demand for private mortgage insurance in the United States could be significantly reduced. We cannot predict whether or when any proposals will be implemented, and if so in what form, nor can we predict the effect of such a proposal, if so implemented, would have on our business, results of operations or financial condition.



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In addition to the general regulatory risks that are described under [Our insurance businesses are extensively regulated](#) and changes in regulation may reduce our profitability and limit our growth and under [The Dodd-Frank Wall Street Reform and Consumer Protection Act](#) subjects us to additional federal regulation, and we cannot predict the effect of such regulation on our business, results of operations or financial condition, we are also affected by various additional regulations relating particularly to our mortgage insurance operations.

*United States*

In the United States, federal and state regulations affect the scope of our U.S. competitors' operations, which has an effect on the size of the U.S. mortgage insurance market and the intensity of the competition in our U.S. mortgage insurance business. This competition includes not only other private mortgage insurers, but also U.S. federal and state governmental and quasi-governmental agencies, principally the FHA and the VA, which are governed by federal regulations. Increases in the maximum loan amount that the FHA can insure, and reductions in the mortgage insurance premiums the FHA charges, can reduce the demand for private mortgage insurance. Decreases in the maximum loan amounts the GSEs will purchase or guarantee, increases in GSE fees or decreases in the maximum loan-to-value ratio for loans the GSEs will purchase can also reduce demand for private mortgage insurance. Legislative and regulatory changes could cause demand for private mortgage insurance to decrease.

If Basel III rules are implemented in the United States in their proposed form, the rules could discourage the use of mortgage insurance in the United States. See [Basel III](#) below. The heightened prudential standards for large bank holding companies and systemically significant financial companies that were proposed by the Federal Reserve Board in December 2011 may also increase the usefulness of mortgage insurance if insurance of that kind is treated as reducing counterparty credit exposure. However, if mortgage insurance is used in that way, it will create a new counterparty credit exposure to the issuer of the insurance, which could limit any usefulness it may otherwise have.

Our U.S. mortgage insurance business, as a credit enhancement provider in the residential mortgage lending industry, is also subject to compliance with various federal and state consumer protection and insurance laws, including RESPA, the ECOA, the FHA, the Homeowners Protection Act, the FCRA, the Fair Debt Collection Practices Act and others. Among other things, these laws prohibit payments for referrals of settlement service business, providing services to lenders for no or reduced fees or payments for services not actually performed, require fairness and non-discrimination in granting or facilitating the granting of credit, require cancellation of insurance and refund of unearned premiums under certain circumstances, govern the circumstances under which companies may obtain and use consumer credit information, and define the manner in which companies may pursue collection activities. Changes in these laws or regulations, changes in the appropriate regulator's interpretation of these laws or regulations or heightened enforcement activity could materially adversely affect the operations and profitability of our U.S. mortgage insurance business.

*Canada*

In Canada, all financial institutions that are federally regulated by OSFI are required to purchase mortgage insurance whenever the amount of a mortgage loan exceeds 80% of the value of the collateral property at the time the loan is made. From time to time, the Canadian government reviews the federal financial services regulatory framework and has in the past examined whether to remove, in whole or in part, the requirement for mortgage insurance on such high loan-to-value mortgages. High loan-to-value mortgage loans constitute a significant part of our portfolio of insured mortgages in, and the removal, in whole or in part, of the regulatory requirement for mortgage insurance for such

loans could result in a reduction in the amount of new insurance written by us in Canada in future years. In addition, any increase in the threshold loan-to-value ratio above which

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mortgage insurance is required or increase in mandatory down payment requirements for mortgage borrowers could also result in a reduction in the amount of new insurance written by us in Canada in future years. Any of these events could have a material adverse effect on our business, results of operations and financial condition of our mortgage insurance business in Canada.

On October 3, 2016, the Minister of Finance announced changes intended to reinforce the Canadian housing finance system. These changes primarily included more restrictive qualification guidelines on homebuyers seeking mortgage insurance compared to the prior requirements and new requirements on insured mortgage loans using bulk or other discretionary low loan-to-value mortgage insurance that previously only applied to high loan-to-value insured mortgages. These changes in regulatory requirements are expected to cause a decrease in demand for both flow and bulk new insurance written going forward.

On December 11, 2015, CMHC announced a price increase to the guarantee fees it will charge issuers as well as annual limits for new guarantees for both its NHA MBS and CMB programs effective July 1, 2016. CMHC guarantees the timely payment of principal and interest for NHA MBS and CMB, enabling approved financial institutions to pool eligible mortgages and transform them into marketable securities that can be sold to investors. The guarantee fees are paid by lenders in addition to the mortgage insurance premium. This price increase was in addition to a price increase implemented effective April 1, 2015. On June 3, 2015, the Canadian government published regulations that prohibit the substitution of mortgages in insured pools after May 15, 2015 and limit the mortgage insurer's commitment period to no more than one year. In February 2016, the Canadian government published regulations to implement the prohibition that was announced in its 2013 budget to limit portfolio insurance to only those mortgages that will be used in CMHC securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations. The regulations became effective on July 1, 2016 and are expected to decrease demand for low loan-to-value mortgage insurance in Canada over time.

If the Canadian government were to alter its applicable regulatory policies in any manner adverse to us, including by managing its aggregate cap of CAD\$350.0 billion on the outstanding principal amount of mortgages insured by private mortgage insurance providers in a manner that is detrimental to private mortgage insurance providers, altering the terms of or terminating its guarantee of the policies of private mortgage insurance providers, including those with our mortgage insurance business in Canada, or varying the treatment of private mortgage insurance in their applicable capital rules, we could lose our ability to compete effectively with CMHC and could effectively be unable to write new business as a private mortgage insurer in Canada. This could have an adverse effect on our ability to offer mortgage insurance products in Canada and could materially adversely affect our financial condition and results of operations. For further discussion of the Canadian government guarantee, refer to Item 1 Business Canada Mortgage Insurance Government guarantee eligibility.

*Australia*

In Australia, APRA regulates all ADIs in Australia and life, general and mortgage insurance companies. APRA also determines the minimum regulatory capital requirements for ADIs. APRA's current regulations provide for reduced capital requirements for certain ADIs that insure residential mortgages with an acceptable mortgage insurer (which include our Australian mortgage insurance companies) for all non-standard mortgages and for standard mortgages with loan-to-value ratios above 80%. APRA's regulations currently set out a number of circumstances in which a loan may be considered to be non-standard from an ADI's perspective. The capital levels for Australian IRB ADIs are determined by their APRA-approved IRB models, which may or may not allocate capital credit for LMI. We believe that APRA and the IRB ADIs have not yet finalized internal models for residential mortgage risk, so we do not believe that the IRB ADIs currently benefit from an explicit reduction in their capital requirements for mortgages covered by mortgage insurance.

Under APRA rules, ADIs in Australia that are accredited as standardized receive a reduced capital incentive for using mortgage insurance for high loan-to-value mortgage loans in Australia. ADIs that are considered to be

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advanced accredited and determine their own capital estimates, are currently working with the mortgage insurers and APRA to determine the appropriate level of incentive mortgage insurance provides for high loan-to-value mortgage loans. The rules also provide that ADIs would be able to acquire mortgage insurance covering less of the exposure to the loan than existing requirements with reduced capital incentives. Accordingly, lenders in Australia may be able to reduce their use of mortgage insurance for high loan-to-value ratio mortgages, or limit their use to the higher risk portions of their portfolios, which may have an adverse effect on our mortgage insurance business in Australia.

*Basel III*

In December 2010, revisions to a set of regulatory rules and procedures governing global bank capital standards were introduced by the Basel Committee to strengthen regulatory capital, liquidity and other requirements for banks, known as Basel III. Although we believe these revisions could support further use of mortgage insurance as a risk and capital management tool in international markets, their adoption by individual countries internationally and in the United States has not concluded and we cannot be sure that this will be the case. In December 2014, the Basel Committee issued two consultative documents, one on proposed revisions to the standardized approach to credit risk and the second on capital floors for IRB banks. We made submissions in response to those documents, advocating for recognition of mortgage insurance and certain other changes, including the treatment of real estate risk. A second consultative document on the standardized approach to credit risk was issued in December 2015, and a consultative document on IRB banks was issued in March 2016. Since the Basel framework continues to evolve, we cannot predict the mortgage insurance benefits, if any, that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance. If countries implement Basel III in a manner that does not reward lenders for using mortgage insurance on high loan-to-value mortgage loans, or if lenders conclude that mortgage insurance does not provide sufficient capital incentives, then we may have to revise our product offerings to meet the new requirements and our results of operations may be materially adversely affected.

**We may not be able to continue to mitigate the impact of Regulations XXX or AXXX and, therefore, we may incur higher operating costs that could have a material adverse effect on our financial condition and results of operations.**

We have increased term and universal life insurance statutory reserves in response to Regulations XXX and AXXX and have taken steps to mitigate the impact these regulations have had on our business, including increasing premium rates and implementing reserve funding structures. One way that we and other insurance companies have mitigated the impact of these regulations is through captive reinsurance companies and/or special purpose vehicles. If we were to discontinue our use of captive life reinsurance subsidiaries to finance statutory reserves in response to regulatory changes on a prospective basis, the reasonably likely impact would be increased costs related to alternative financing, such as third-party reinsurance, which would adversely impact our consolidated results of operations and financial condition. In addition, we cannot be certain that affordable alternative financing would be available.

On March 7, 2016, we suspended sales of our traditional life insurance products. While we are no longer writing new life insurance business, we cannot provide assurance that we will be able to continue to implement actions to mitigate further impacts of Regulations XXX or AXXX on our in-force term and universal life insurance products which are not currently part of reserve funding structures or which may be part of existing reserve arrangements and need refinancing.

Additionally, there may be future regulatory, tax or other impacts to existing reserve funding structures and/or future refinancing, which could require us to increase statutory reserves or incur higher operating and/or tax costs. For example, effective January 1, 2017, the NAIC adopted an amended version of AG 48. The NAIC also adopted the Term and Universal Life Insurance Reserve Financing Model Regulation in December 2016, which will apply when

formally adopted by the states. There are differences between AG 48 and the Term and Universal Life Insurance Reserve Financing Model Regulation, and it is not clear what additional changes or

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state variations may emerge as the states adopt this regulation. Further implementation of the framework remains with respect to RBC calculations, financial reporting by captives and other issues. As a result, there is the potential for additional requirements making it more difficult and/or expensive for us to mitigate the impact of Regulations XXX and AXXX.

### **The Dodd-Frank Wall Street Reform and Consumer Protection Act subjects us to additional federal regulation, and we cannot predict the effect of such regulation on our business, results of operations or financial condition.**

The Dodd-Frank Act made extensive changes to the laws regulating financial services firms and required various federal agencies to adopt a broad range of new implementing rules and regulations, many of which have taken effect.

Among other provisions, the Dodd-Frank Act established new framework of regulation of the OTC derivatives markets which require, among other things, trade reporting of OTC derivatives transactions, formalized documentation requirements, execution of designated transactions on a SEF or DCM, clearing of designated transactions through DCOs and exchange of initial and variation margin for non-cleared swap transactions. We currently are subject to reporting with respect to all derivatives transactions we enter into and must execute certain interest rate and other transactions on a SEF or DCM, which transactions we also must clear through a DCO. The clearing requirements, among other things, require us to post with a futures commission merchant highly liquid securities or cash as initial margin and cash to meet variation margin requirements for most interest rate derivatives we trade. Over time, we will experience additional collateral requirements for derivative transactions that are not required to be cleared. As the new marketplace continues to evolve, we may have to alter or limit the way we use derivatives in the future, which could have a material adverse effect on our results of operations and financial condition. We are subject to similar trade reporting, documentation, central trading and clearing and OTC margining requirements when we transact with foreign derivatives counterparties. The Dodd-Frank Act and foreign derivatives requirements expose us to operational, compliance, execution and other risks, including central counterparty insolvency risk.

The applicability of many of these regulations to us will depend to a large extent on whether the FSOC determines that we are systemically significant, in which case we would become subject to supervision by the Federal Reserve Board. FSOC has adopted final rules for evaluating whether a non-bank financial company should be designated as systemically significant. To date, the FSOC has not identified us as systemically significant. Since we are not affiliated with an insured depository institution, such supervision would probably have its greatest effect on requirements relating to capital, liquidity, stress testing, limits on counterparty credit exposure, compliance and governance, early remediation in the event of financial weakness and other prudential matters. Systemically significant companies are also required to prepare resolution plans, so-called living wills, that set out how they could most efficiently be liquidated if they endangered the U.S. financial system or the broader economy. Insurance companies that are found to be systemically significant are permitted, in some circumstances, to submit abbreviated versions of such plans.

The Dodd-Frank Act established the FIO within the Department of the Treasury to perform various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers that may be designated for more stringent oversight by the FSOC. We have not been designated to receive oversight by the FSOC, but there can be no assurances that it will not happen in the future.

We cannot predict the requirements that will be imposed under all the regulations adopted under the Dodd-Frank Act, the effect regulations will have on financial markets generally, or on our businesses specifically (directly or indirectly), the additional costs associated with compliance with such regulations, or any changes to our operations

that may be necessary to comply with the Dodd-Frank Act and the regulations thereunder, any of which could have a material adverse effect on our business, results of operations, cash flows or financial condition.



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**Changes in accounting and reporting standards issued by the Financial Accounting Standards Board or other standard-setting bodies and insurance regulators could materially adversely affect our financial condition and results of operations.**

Our financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board. It is possible that future accounting and reporting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes could have a material adverse effect on our financial condition and results of operations. In addition, the required adoption of future accounting and reporting standards may result in significant costs to implement. For example, current proposals may change the accounting treatment for insurance contracts and financial instruments and could result in increased volatility of net income (loss) as well as other comprehensive income (loss). In addition, the implementation of these or other proposals could require us to make significant changes to systems and use additional resources, resulting in significant incremental costs to implement the proposals.

**Liquidity, Financial Strength Ratings, Credit and Counterparty Risks**

**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.**

We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. Genworth Holdings currently has approximately \$3.8 billion of outstanding debt that matures between 2018 and 2066, including \$0.6 billion that matures in 2018, \$0.4 billion that matures in 2020 and \$1.1 billion that matures in 2021. Our existing cash resources are not sufficient to repay all outstanding debt as it becomes due, and therefore we will be required to rely on a combination of potential liquidity sources to repay or refinance debt as it becomes due, including existing and future cash resources, new borrowings and/or other potential sources of liquidity such as issuing additional equity or asset sales. Market conditions and a variety of other factors may make it difficult or impracticable to generate additional liquidity on favorable terms or at all. Any failure to repay or refinance our debt as it becomes due would have a material adverse effect on our business, financial condition and results of operations.

As part of the China Oceanwide transaction, China Oceanwide has agreed to contribute to us, on or prior to the maturity of the outstanding 6.515% senior notes due in 2018, \$600 million to retire such outstanding debt obligations. However, there is no guarantee the transaction will be completed.

To the extent we seek additional borrowings to satisfy our liquidity needs, the availability of additional borrowings depends on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, and our credit ratings and credit capacity. If we were required to raise additional debt today, we do not believe we would be able to raise borrowings on favorable terms, and we may not be able to raise borrowings at all, based on current market conditions and our credit ratings and financial condition. There is no guarantee that any of these factors will improve in the future when we would seek additional borrowings. Disruptions, volatility and uncertainty in the financial markets and downgrades in our credit ratings may force us to delay raising capital, issue shorter term securities than would be optimal, bear an unattractive cost of capital or be unable to raise capital at any price.

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. To extent we need additional funding to satisfy our additional liquidity needs, there can be no assurance

that we will be able to enter into a credit facility on terms (or at targeted amounts) acceptable to us or at all.

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Similarly, market conditions and a variety of other factors may make it difficult or impracticable to generate additional liquidity through asset sales or the issuance of additional equity, and any issuance of equity in such circumstances could be highly dilutive to our stockholders.

For a further discussion of our liquidity, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

**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.**

Financial strength ratings, which various rating agencies publish as measures of an insurance company's ability to meet contractholder and policyholder obligations, are important to maintaining public confidence in our products, the ability to market our products and our competitive position. Credit ratings, which rating agencies publish as measures of an entity's ability to repay its indebtedness, are important to our ability to raise capital through the issuance of debt and other forms of credit and to the cost of such financing.

Over the last several years, the ratings of our holding company and several of our insurance companies have been downgraded, placed on negative outlook and/or put on review for potential downgrade on various occasions. A ratings downgrade, negative outlook or review could occur (and has occurred) for a variety of reasons, including reasons specifically related to our company, generally related to our industry or the broader financial services industry or as a result of changes by the rating agencies in their methodologies or rating criteria. We may be at risk of additional ratings downgrades in the future. A negative outlook on our ratings or a downgrade in any of our financial strength or credit ratings, the announcement of a potential downgrade, negative outlook or review, or customer, investor, regulator or other concerns about the possibility of a downgrade, negative outlook or review, could have a material adverse effect on our results of operations, financial condition and business.

The rating agencies took a variety of adverse ratings actions with respect to the financial strength ratings of our principal life insurance subsidiaries following our announcements regarding the China Oceanwide transaction and charges in our long-term care insurance business in the third quarter of 2016. See Item 1 Business Financial Strength Ratings for information regarding the current financial strength ratings of our principal insurance subsidiaries.

The direct or indirect effects of such adverse ratings actions or any future actions could include, but are not limited to:

reducing new sales of our products or limiting the business opportunities we are presented with;

adversely affecting our relationships with distributors, including the loss of exclusivity under certain agreements with our independent sales intermediaries and distribution partners;

causing us to lose key distributors that have ratings requirements that we may no longer satisfy (or resulting in our renegotiation of new, less favorable arrangements with those distributors);

requiring us to modify some of our existing products or services to remain competitive, or introduce new products or services;

materially increasing the number or amount of policy surrenders, withdrawals and loans by contractholders and policyholders;

requiring us to post additional collateral for our derivatives or hedging agreements (including those providing us with protection against certain foreign currency exchange movement, interest rate fluctuation and equity market risk) or enabling the counterparties to these agreements to exercise their right to terminate all transactions under the agreements;

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requiring us to provide support, or to arrange for third-party support, in the form of collateral, capital contributions or letters of credit under the terms of certain of our reinsurance, securitization and other agreements, or otherwise securing our commercial counterparties for the perceived risk of our financial strength;

adversely affecting our ability to maintain reinsurance or obtain new reinsurance or obtain it on reasonable pricing and other terms;

limiting our ability to enter into new derivative transactions thereby increasing additional asset adequacy or other statutory reserves and lowering statutory capital, reducing our financial flexibility;

increasing the capital charge associated with affiliated investments within certain of our U.S. life insurance businesses thereby lowering capital and risk based capital of these subsidiaries and negatively impacting our financial flexibility;

regulators requiring certain of our subsidiaries to maintain additional capital, limiting thereby our financial flexibility and requiring us to raise additional capital;

adversely affecting our ability to raise capital;

increasing our cost of borrowing and making it more difficult to borrow in the public debt markets or enter into a credit agreement; and

making it more difficult to execute strategic plans to effectively address our current business challenges. Sales of our U.S. life insurance products, including our long-term care insurance products, have been impacted by 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. Any further adverse ratings announcements or actions likely would have, or intensify, the adverse impact of the direct or indirect effects discussed above (among others), all of which could have a material adverse impact on our results of operations, financial condition and business.

Under PMIERS, the GSEs have substantially revised their eligibility requirements and no longer primarily base such requirements on maintenance of specific ratings levels. In lieu of ratings criteria, the GSEs, under PMIERS, have adopted new financial requirements. See      If we are unable to meet the requirements mandated by PMIERS because the GSEs amend them or the GSEs' interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition      for additional information regarding the requirements under PMIERS. However, under PMIERS, the GSEs now require maintenance of at least one rating with a rating agency acceptable to the respective GSEs. Ratings downgrades that result in our inability to insure new mortgage loans sold to the GSEs, or the transfer by the GSEs of our existing policies to an alternative mortgage insurer, would have a materially adverse effect on our results of operations and financial condition. Further, our relationships with our mortgage insurance customers may be adversely affected by

the ratings assigned to our holding company or other operating subsidiaries which could have a material adverse effect on our business, financial condition and results of operations.

**Defaults by counterparties to our reinsurance arrangements or to derivative instruments we use to hedge our business risks, or defaults by us on agreements we have with these counterparties, may expose us to risks we sought to mitigate, which could have a material adverse effect on our results of operations and financial condition.**

We routinely execute reinsurance and derivative transactions with reinsurers, brokers/dealers, commercial banks, investment banks and other institutional clients to mitigate our risks in various circumstances and to hedge

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various business risks. Many of these transactions expose us to credit risk in the event of default of our counterparty or client or change in collateral value. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. We cannot be sure that our reinsurers will pay the reinsurance recoverable owed to us now or in the future or that they will pay these recoverables on a timely basis. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have a material adverse effect on our financial condition and results of operations. Collateral is often posted by the counterparty to offset this risk, however, we bear the risk that the collateral declines in value or otherwise is inadequate to fully compensate us in the event of a default. We also enter into a variety of derivative instruments, including options and interest rate and currency swaps with a number of counterparties. If our counterparties fail or refuse to honor their obligations under the derivative instruments, and collateral posted, if any, is inadequate, our hedges of the related risk will be ineffective. In addition, if we trigger downgrade provisions on risk-hedging or reinsurance arrangements, the counterparties to these arrangements may be able to terminate our arrangements with them or require us to take other measures, such as post additional collateral, contribute capital or provide letters of credit. The loss of material risk-hedging or reinsurance arrangements could have a material adverse effect on our financial condition and results of operations. We ceded to UFLIC our in-force structured settlements block of business issued prior to 2004, certain variable annuity business issued prior to 2004 and the long-term care insurance assumed from MetLife Insurance Company USA. UFLIC has established trust accounts for our benefit to secure its obligations under the reinsurance arrangements, and at that time, General Electric Capital Corporation, an indirect subsidiary of GE, had agreed to maintain UFLIC's RBC above a specified minimum level pursuant to a Capital Maintenance Agreement. In connection with its announced realignment and reorganization of the business of General Electric Capital Corporation in December 2015, General Electric Capital Corporation merged with and into GE. As a result, GE is the successor obligor under the Capital Maintenance Agreement. If UFLIC becomes insolvent notwithstanding this agreement, and the amounts in the trust accounts are insufficient to pay UFLIC's obligations to us, it could have a material adverse effect on our financial condition and results of operations.

**Defaults or other events impacting the value of our fixed maturity securities portfolio may reduce our income.**

We are subject to the risk that the issuers or guarantors of fixed maturity securities we own may default on principal or interest payments they owe us. As of December 31, 2016, fixed maturity securities of \$60.6 billion in our investment portfolio represented 82% of our total cash, cash equivalents and invested assets. Events reducing the value of our investment portfolio other than on a temporary basis could have a material adverse effect on our business, results of operations and financial condition. Levels of write-downs or impairments are impacted by our assessment of the financial condition of the issuer, whether or not the issuer is expected to pay its principal and interest obligations, our expected recoveries in the event of a default or circumstances that would require us to sell securities which have declined in value.

**Defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance may adversely affect our profitability.**

Our commercial mortgage loans and investments in commercial mortgage-backed securities face default risk. Commercial mortgage loans are stated on our consolidated balance sheets at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of impairments and valuation allowances. We establish valuation allowances for estimated impairments as of the balance sheet date based on information, such as the market value of the underlying real estate securing the loan, any third-party guarantees on the loan balance or any cross collateral agreements and their impact on expected recovery rates. Commercial mortgage-backed securities are stated on our consolidated balance sheets at fair value.

Further, any concentration of geographic, sector or counterparty exposure in our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities may have adverse



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effects on our investment portfolio and consequently on our consolidated results of operations or financial condition. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region, sector or counterparty may have a greater adverse effect on the investment portfolios to the extent that the portfolios are exposed to such geographic region, sector or counterparty.

### **Operational Risks**

#### **If we are unable to retain, attract and motivate qualified employees or senior management, our results of operations, financial condition and business operations may be adversely impacted.**

Our success is largely dependent on our ability to retain and attract qualified employees. We face intense competition in our industry for key employees with demonstrated ability, including actuarial, finance, legal, investment, risk, compliance and other professionals. Our ability to retain, attract and motivate experienced and qualified employees has been more challenging in light of our recent financial difficulties and our announced expense reductions, as well as the demands being placed on our employees. In addition, our ability to attract, recruit, retain and motivate current and prospective employees may be adversely impacted by our proposed transaction with China Oceanwide. We cannot be sure we will be able to attract, retain and motivate the desired workforce, and our failure to do so could have a material adverse effect on results of operations, financial condition and business operations. In addition, we may not be able to meet regulatory requirements relating to required expertise in various professional positions.

Managing key employee succession and retention is also critical to our success. We would be adversely affected if we fail to adequately plan for the succession of our senior management and other key employees. While we have succession plans and long-term compensation plans, including retention programs, designed to retain our employees, our succession plans may not operate effectively and our compensation plans cannot guarantee that the services of these employees will continue to be available to us.

#### **Our risk management programs may not be effective in identifying or adequate in controlling or mitigating the risks we face.**

We have developed risk management programs that include risk appetite, limits, identification, quantification, governance, policies and procedures and seek to appropriately identify, monitor, measure, control, mitigate and report the types of risks to which we are subject. We regularly review our risk management programs and work to update them on an ongoing basis to be consistent with evolving global best market practices. However, our risk management programs may not fully control or mitigate all of the risks we face in our business or anticipate all potential material negative events.

Many of our methods of managing certain financial risks (e.g. credit, market, insurance and underwriting risks) are based on observed historical market behaviors and/or historical, statistically-based models. Historical measures may not accurately predict future exposures, which could be significantly greater than historical measures have indicated. We have also established internal risk limits based upon these historical, statistically-based models and we monitor compliance with these limits. Our internal risk limits may be insufficient and our monitoring may not detect all violations (inadvertent or otherwise) of these limits. Other risk management methods are based on our evaluation of information regarding markets, customers and customer behavior, macroeconomic and environmental conditions, catastrophic occurrences and potential changing paradigms that are publicly available or otherwise accessible to us. This collective information may not always be accurate, complete, up to date or properly considered, interpreted or evaluated in our analyses. Moreover, the models and other parts of our risk management programs we rely on in managing various aspects of our business may prove in practice to be less predictive than we expect for a variety of reasons, including as a result of issues arising in the construction, implementation, interpretation or use of the models

or other programs, the use of inaccurate assumptions or use of short-term financial metrics that do not reveal long-term trends. The limitations of our

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models and other parts of our risk management programs may be material, and could lead us to make wrong or sub-optimal decisions in managing our risk and other aspects of our business and this could have a material adverse effect on our results of operations, financial condition and business.

Management of operational, legal, franchise and global regulatory risks requires, among other things, methods to appropriately identify all such key risks, systems to record incidents and policies and procedures designed to detect, record and address all such risks and occurrences. If our risk management framework does not effectively identify, measure and control our risks, we could suffer unexpected losses or be adversely affected and that could have a material adverse effect on our business, results of operations and financial condition.

We employ various strategies, including hedging and reinsurance, to mitigate financial risks inherent in our business and operations. These risks include current or future changes in the fair value of our assets and liabilities, current or future changes in cash flows, the effect of interest rates, changes in equity markets, credit spread movements, the occurrence of credit and counterparty defaults, currency fluctuations, changes in global housing prices, and changes in mortality, morbidity and lapses. We seek to control these risks by, among other things, entering into reinsurance contracts and derivative instruments. Such contracts and instruments may not always be available to us and subject us to counterparty credit risk. Developing effective strategies for dealing with these risks is a complex process, and no strategy can fully insulate us from such risks. The execution of these strategies also introduces operational risks and considerations. See Reinsurance may not be available, affordable or adequate to protect us against losses and Defaults by counterparties to our reinsurance arrangements or to derivative instruments we use to hedge our business risks, or defaults by us on agreements we have with these counterparties, may expose us to risks we sought to mitigate, which could have a material adverse effect on our results of operations and financial condition for more information about risks inherent in our reinsurance and hedging strategies.

We may choose to retain certain levels of financial and/or non-financial risk, even when it is possible to mitigate these risks. The decision to retain certain levels of financial risk is predicated on our belief that the expected future returns that we will realize from retaining the risk, in relation to the level of risk retained, is favorable, but it may turn out that our expectations are incorrect and we incur material costs or suffer other adverse consequences that arise from the retained risk.

Our performance is highly dependent on our ability to manage risks that arise from day-to-day business activities, including underwriting, claims processing, policy administration and servicing, execution of our investment and hedging strategy, actuarial estimates and calculations, financial and tax reporting and other activities, many of which are very complex. We seek to monitor and control our exposure to risks arising out of or related to these activities through a variety of internal controls, management review processes and other mechanisms. However, the occurrence of unforeseen events, or the occurrence of events of a greater magnitude than expected, including those arising from inadequate or ineffective controls, a failure in processes, procedures or systems implemented by us or a failure on the part of employees upon which we rely in this regard, may have a material adverse effect on our financial condition or results of operations.

Past or future misconduct by our employees or employees of our vendors or suppliers could result in violations of laws by us, regulatory sanctions against us and/or serious reputational, legal or financial harm to our business, and the precautions we employ to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor the business decisions and activities of these individuals to prevent us from engaging in inappropriate activities, excessive risk taking, fraud or security breaches, these individuals may take such risks regardless of such controls and procedures and such controls and procedures may fail to detect all such decisions and activities. Our compensation policies and procedures are reviewed by us as part of our overall risk management program, but it is possible that such compensation policies and practices could inadvertently incentivize

excessive or inappropriate risk taking. If these individuals take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

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**Our reliance on key customer or distribution relationships could cause us to lose significant sales if one or more of those relationships terminate or are reduced.**

Our businesses depend on our relationships with our customers, and in particular, our relationships with our largest lending customers in our mortgage insurance businesses. Our customers place insurance with us directly on loans that they originate and they also do business with us indirectly, primarily in the United States, through purchases of loans that already have our mortgage insurance coverage. Our relationships with our customers may influence both the amount of business they do with us directly and also their willingness to continue to approve us as a mortgage insurance provider for loans that they purchase. Particularly in Canada and Australia where a large portion of our business is concentrated with a small number of customers, the loss of business from significant customers could have an adverse effect on the amount of new business we are able to write and consequently, our financial condition and results of operations. Maintaining our business relationships and business volumes with our largest lending customers remains critical to the success of our business.

We cannot be certain that any loss of business from significant customers, or any single lender, would be replaced by other customers, existing or new. As a result of current market conditions and increased regulatory requirements, our lending customers may decide to write business only with a limited number of mortgage insurers or only with certain mortgage insurers, based on their views with respect to an insurer's pricing, service levels, underwriting guidelines, loss mitigation practices, financial strength, ratings or other factors.

As discussed in Part I Item 1 Business, our mortgage insurance businesses in Canada and Australia are highly concentrated in a small number of key distribution partners, which increases our risks and exposure in the event one or more of these partners terminate or reduce their relationship with us. Any termination, reduction or material change in relationship with a key distribution partner could have a material adverse effect on our future sales for one or more products. In addition, in Australia, where mortgage insurance is not required on high loan-to-value loans, some lenders self-insure a portion of their originations. If our lending customers in this market increase the self-insurance or other alternatives to mortgage insurance, this could have an unfavorable impact on the amount of new business we are able to write and consequently, our financial condition and results of operations.

We distribute our products through a wide variety of distribution methods, including through relationships with key distribution partners (including lender customers of our mortgage insurance businesses). These distribution partners are an integral part of our business model. We are at risk that key distribution partners may merge, change their distribution model affecting how our products are sold, or terminate their distribution contracts or relationships with us. In addition, timing of key distributor adoption of our new product offerings may impact sales of those products. Some distributors have, and in the future others may, elect to terminate or reduce their distribution relationships with us for a variety of reasons, including as a result of our recent financial challenges (including adverse ratings actions). And in the future, other distributors may terminate or reduce their relationships with us as a result of, among other things, these challenges as well as future adverse developments in our business or adverse rating agency actions or concerns about market-related risks, commission levels or the breadth of our product offerings.

**Competitors could negatively affect our ability to maintain or increase our market share and profitability.**

Our businesses are subject to intense competition. We believe the principal competitive factors in the sale of our products are product features, product investment returns, price, commission structure, marketing and distribution arrangements, brand, reputation, financial strength ratings and service. In many of our product lines, we face competition from competitors that have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength ratings than we do. Our recent financial challenges have adversely and directly impacted the

competitiveness of our life, annuity and long-term care insurance businesses, and indirectly adversely impacted our mortgage insurance businesses. In addition, many competitors offer similar products and

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use similar distribution channels. The appointment of a receiver to rehabilitate or liquidate or take other adverse regulatory actions against a significant competitor could also negatively impact our businesses if such actions were to impact consumer confidence in industry products and services.

The U.S. private mortgage insurance industry remains highly competitive, particularly with the entry of new participants in the last several years. There are currently seven active mortgage insurers, including us. Some of these private mortgage insurers, particularly new entrants, may have short- to mid-term business goals that differ from ours. For example, we believe that in order to achieve operational scale some competitors have sought to increase their market share through lower pricing on various products. In addition, not all of our mortgage insurance products have the same return on capital profile. Single premium insurance coverage, for instance, has been priced in the market at levels that currently generate lower lifetime premiums and require higher lifetime capital than monthly products. To the extent that some of our competitors are willing to set lower pricing and accept lower returns than we find acceptable, we may lose business opportunities involving products of this type and this may affect our overall business relationship with certain customers. If we match lower pricing on these products, we will experience a similar reduction in returns on capital. In addition, two recently merged competitors have transitioned from delivering price to lenders via standard rate cards to a form of delivery (i.e., black box ) with limited pricing information which could enhance their ability to change price across incremental risk attributes and shorten the time to implement future pricing changes in the marketplace. Depending upon the degree to which we undertake or match such pricing practices, there may be a material adverse impact on our business, results of operations and financial condition.

**We compete with government-owned and government-sponsored enterprises in our mortgage insurance businesses, and this may put us at a competitive disadvantage on pricing and other terms and conditions.**

Our U.S. mortgage insurance business competes with the FHA and the VA, as well as certain local- and state-level housing finance agencies. In particular, since 2008, there has been a significant increase in the number of loans insured by the FHA. Separately, the government-owned and government-sponsored enterprises, including Fannie Mae and Freddie Mac, may also compete with our U.S. mortgage insurance business through certain of their risk-sharing insurance programs. Those competitors may establish pricing terms and business practices that may be influenced by motives such as advancing social housing policy or stabilizing the mortgage lending industry, which may not be consistent with maximizing return on capital or other profitability measures. In addition, those governmental enterprises typically do not have the same capital requirements that we and other mortgage insurance companies have and therefore may have financial flexibility in their pricing and capacity that could put us at a competitive disadvantage. In the event that a government-owned or sponsored entity in one of our markets determines to change prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit or risk management motive, we may be unable to compete in that market effectively, which could have a material adverse effect on our financial condition and results of operations.

Like our U.S. mortgage insurance business, our international mortgage insurance businesses compete with government-owned and government-sponsored enterprises. These competitors may establish pricing terms and business practices that may be influenced by motives such as advancing social housing policy or stabilizing the mortgage lending industry, which may not be consistent with maximizing return on capital or other profitability measures. In the event that a government-owned or sponsored entity in one of our markets determines to reduce prices significantly or alter the terms and conditions of its mortgage insurance or other credit enhancement products in furtherance of social or other goals rather than a profit motive, we may be unable to compete in that market effectively, which could have a material adverse effect on our financial condition and results of operations.

In Canada, we compete with CMHC, a corporation owned by the Canadian government. CMHC is a sovereign entity that provides mortgage lenders a lower capital charge and a 100% government guarantee as compared to loans covered by our policy which benefit from a 90% government guarantee. CMHC also operates



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the CMB and the NHA MBS programs, which provide lenders the ability to efficiently guarantee and securitize their mortgage loan portfolios. If we are unable to effectively distinguish ourselves competitively with our Canadian mortgage lender customers, under current market conditions or in the future, we may be unable to compete effectively with CMHC as a result of the more favorable capital relief it can provide or the other products and incentives that it offers to lenders. Additionally, in times of economic stress, customers may choose CMHC as a result of being a higher rated sovereign entity regardless of our ability to distinguish ourselves competitively from CMHC.

Recent conditions in the international financial markets could lead other countries to nationalize our competitors or establish competing governmental agencies, which would further limit our competitive position in international markets and, therefore, materially affect our results of operations.

### **Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.**

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continually reviews the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. We have previously had a material weakness in internal control over financial reporting and cannot provide assurance that additional material weaknesses will not be identified in the future. Further material weaknesses in internal control over financial reporting or ineffectiveness in disclosure controls and procedures could occur however and result in errors in our financial statements or untimely filings, which could cause investors to lose confidence in our reported financial information, and a decline in our stock price.

### **Our computer systems may fail or be compromised, and unanticipated problems could materially adversely impact our disaster recovery systems and business continuity plans, which could damage our reputation, impair our ability to conduct business effectively and materially adversely affect our financial condition and results of operations.**

Our business is highly dependent upon the effective operation of our computer systems. We also have arrangements in place with our partners and other third-party service providers through which we share and receive information. We rely on these systems throughout our business for a variety of functions, including processing claims and applications, providing information to customers and distributors, performing actuarial analyses and maintaining financial records. Despite the implementation of security and back-up measures, our computer systems and those of our partners and third-party service providers may be vulnerable to physical or electronic intrusions, computer viruses or other attacks, programming errors and similar disruptive problems. The failure of these systems for any reason could cause significant interruptions to our operations, which could result in a material adverse effect on our business, financial condition or results of operations.

We retain confidential information in our computer systems, and we rely on commercial technologies to maintain the security of those systems, including computers or mobile devices. Anyone who is able to circumvent our security measures and penetrate our computer systems or misuse authorized access could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable information, personal health information and proprietary business information. Our employees, distribution partners and other vendors may use portable computers or mobile devices which may contain similar information to that in our computer systems, and these devices have been and can be lost, stolen or damaged, and therefore subject to the same risks as our other computer systems. In addition, an increasing number of states and foreign countries require that affected parties be notified or other actions be taken (which could involve significant costs to us) if a security breach results in the inappropriate

disclosure of personally identifiable information. Although we have experienced occasional, actual or attempted breaches of our cybersecurity, none of these breaches has had a material effect on our business, operations or reputation. Any compromise of the security of our computer

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systems or those of our partners and third-party service providers that results in inappropriate disclosure of personally identifiable customer information could damage our reputation in the marketplace, deter people from purchasing our products, subject us to significant civil and criminal liability and require us to incur significant technical, legal and other expenses.

In addition, unanticipated problems with, or failures of, our disaster recovery systems and business continuity plans could have a material adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those problems affect our information technology systems and destroy, lose or otherwise compromise valuable data. In addition, in the event that a significant number of our employees were unavailable in the event of a disaster, our ability to effectively conduct business could be severely compromised. The failure of our disaster recovery systems and business continuity plans could adversely impact our profitability and our business.

**Insurance and Product-Related Risks**

**We may not be able to increase premiums or reduce benefits on our in-force long-term care insurance policies by enough or quickly enough and the rate actions or reduced benefits currently being implemented and any future rate actions may adversely affect demand for our long-term care insurance products, our reputation in the market, our results of operations and our financial condition.**

The success of our strategy for our long-term care insurance business is based on our ability to obtain significant price increases or benefit reductions, as warranted and actuarially justified based on our experience, on our in-force block of long-term care insurance policies and price our new policies appropriately (at significantly higher prices than has historically been the case). The adequacy of our current long-term care insurance reserves also depends significantly on various assumptions and our ability to successfully execute our in-force management plan through increased premiums or reduced benefits as anticipated. Although the terms of all of our long-term care insurance policies permit us to increase premiums during the premium-paying period, these increases generally require regulatory approval, which can often take a long time to obtain and may not be obtained in all relevant jurisdictions or for the full amounts requested. In addition, some states are considering adopting long-term care insurance rate increase legislation that would further limit increases in long-term care insurance premium rates beyond the rate stability legislation previously adopted in certain states, which would adversely impact our ability to achieve anticipated rate increases. Some states have refused to approve actuarially justified rate actions, to date, and we are currently in litigation with one state that has refused to approve actuarially justified rate actions. Rate increases by us or our competitors could also adversely affect our reputation in the markets in which we operate, adversely impact our ability to continue to market and sell new long-term care insurance products, make it more difficult for us to obtain future rate increases and adversely impact our ability to retain existing policyholders and agents. Policyholders may be unwilling or unable to pay the increased premiums we will seek to charge. We cannot predict how our policyholders (or potential future policyholders), agents, competitors and regulators may react to any rate increases, nor can we predict if regulators will approve requested rate increases. We may also be forced to stop selling our long-term care insurance products in markets where we cannot achieve satisfactory rate increases, which will cause a further decrease in our sales.

In addition, we include assumptions for significant anticipated (but not yet filed) future premium rate increases or benefit reductions in our determination of loss recognition testing of our long-term care insurance reserves under U.S. GAAP and asset adequacy testing of our statutory long-term care insurance reserves (except for our New York insurance subsidiary). As of December 31, 2016, the assumption for future anticipated rate actions increased our U.S. GAAP long-term care insurance margin by approximately \$7.3 billion. We may not be able to realize these anticipated rate increases or benefit reductions in the future as a result of our inability to obtain required regulatory approvals or other factors. In this event, we would have to increase our long-term care insurance reserves by amounts that would likely be material. Moreover, we may not be able to mitigate the impact of unexpected adverse experience by

increasing premiums and/or through associated policyholder elections to reduce benefits.

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There can also be no assurance that the premium levels of our current and future products will be well received by the market, and we may suffer from a decreased demand for our long-term care insurance products. If we are unable to sell our long-term care insurance products at such premium levels, we may not be able to sell them profitably or at all, and our results of operations and financial condition may be materially adversely affected.

### **If demand fails to increase new sales for our long-term care insurance products, our business and our financial condition and results of operations could be materially adversely affected.**

A majority of our premium revenue is derived from our long-term care insurance products. In recent years, industry sales of these products have declined. Several factors can affect demand for these products, including changes in market and economic conditions, risk tolerance of insurers and customers and legislative or regulatory changes. In the past, decisions by insurers to cease offering these products, to raise prices on in-force policies or new policies and/or to introduce new products with higher prices have negatively impacted sales for these products. These actions resulted in decreased purchases of these products and have caused some distributors to reduce their sales focus on these products. Our success in this business depends on our ability to introduce and market products and services that are financially attractive and address our customers' changing demands, yet provide adequate returns to us. If the market for long-term care insurance products continues to decline, or if we are unable to compete effectively in that market given the current ratings of our product offerings, our financial condition and results of operations could be materially adversely affected. Reduced sales may also have a negative impact on our ability to receive future rate increases on our in-force policies, and state Medicaid systems may have decreased reliance on private funding of long-term care services through long-term care insurance.

### **Reinsurance may not be available, affordable or adequate to protect us against losses.**

As part of our overall risk and capital management strategy, we have historically purchased reinsurance from external reinsurers as well as provided internal reinsurance support for certain risks underwritten by our various business segments. These reinsurance arrangements enable our businesses to transfer risks in exchange for some of the associated economic benefits and, as a result, improve our statutory capital position and manage risk to within our tolerance level. Some of these reinsurance arrangements are indefinite, but others require periodic renewals. For instance, in Australia, reinsurance contracts generally have a two-year base term. At the end of the base term, we can elect a runoff term to continue coverage, with reducing amounts of regulatory capital benefits, or attempt to negotiate a renewal. The availability and cost of reinsurance protection are impacted by our operating and financial performance, including ratings, as well as conditions beyond our control. For example, our recent financial challenges and adverse rating actions may reduce the availability of certain types of reinsurance and make it more costly when it is available, as reinsurers are less willing to take on credit risk in a volatile market. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain new reinsurance or renew existing reinsurance arrangements on acceptable terms, or at all, which could increase our risk and adversely affect our ability to write future business or obtain statutory capital credit for new reinsurance or could require us to make capital contributions to maintain regulatory capital requirements. See [Item 1](#) If we are unable to meet the capital requirements mandated by PMIERS because the GSEs amend them or the GSEs' interpretation of the capital requirements requires us to hold amounts of capital that are higher than we currently have planned or otherwise, we may not be eligible to write new insurance on loans sold to or guaranteed by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition.

### **We cannot be sure of the extent of benefits we will realize from loss mitigation actions or programs in our mortgage insurance businesses in the future.**

As part of our loss mitigation efforts in the United States, Canada and Australia, we routinely investigate insured loans and evaluate the related servicing to ensure compliance with applicable guidelines and to detect

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possible fraud or misrepresentation. As a result, we have, and may in the future, rescind coverage on loans that do not meet our guidelines or curtail the amount of claims payable for non-compliance. In the past, we recognized significant benefits from taking action on these investigations and evaluations under our master policies. While we believe these actions are valid and expect additional actions based on future investigations and evaluations, we can give no assurance on the extent to which we may continue to see such rescissions or curtailments. In addition, insured lenders may object to our actions and we continue to have discussions with certain of those lenders regarding their objections to our actions that in the aggregate are material. If disputed by the insured and a legal proceeding were instituted, the validity of our actions would be determined by arbitration or judicial proceedings unless otherwise settled. In the near term, sales could be reduced or eliminated as a result of a dispute with one or more lenders and such disputes could have an adverse effect on our long-term relationships with those lenders that are impacted. Further, our loss reserving methodology includes estimates of the number of loans in our delinquency inventory that will be rescinded or have their claims curtailed. A variance between ultimate action rates and these estimates could have a material adverse effect on our financial position and results of operations. For example, if the loan modification trend in 2017 worsens beyond our expectations, we would expect further aging of our delinquent loan inventory, which could increase our loss reserves.

In the United States, the mortgage finance industry (with government support) has adopted various programs to modify delinquent loans to make them more affordable to borrowers with the goal of reducing the number of foreclosures. In all of our mortgage insurance businesses, regardless of jurisdiction, our master policies contain covenants that require cooperation and loss mitigation by the insured. The effect on us of a loan modification depends on re-default rates, which in turn can be affected by factors such as changes in home values and unemployment. Our estimates of the number of loans qualifying for modification programs is based on management judgment as informed by past experience and current market conditions but are inherently uncertain. We cannot predict what the actual volume of loan modifications will be or the ultimate re-default rate, and therefore, we cannot be certain whether these efforts will provide material benefits to us.

**The premiums we agree to charge upon writing a mortgage insurance policy may not adequately compensate us for the risks and costs associated with the coverage we provide for the entire duration of that policy.**

We establish renewal premium rates for the duration of a mortgage insurance policy upon issuance, and we cannot cancel the policy or adjust the premiums after the policy is issued. As a result, we cannot offset the impact of unanticipated claims with premium increases on policies in-force, and we cannot refuse to renew mortgage insurance coverage. In addition, our premium rates vary with the perceived risk of a claim on the insured loan, which takes into account factors such as the loan-to-value ratio, our long-term historical loss experience, whether the mortgage provides for fixed payments or variable payments, the term of the mortgage, the borrower's credit history and the level of documentation and verification of the borrower's income and assets. Our ability to properly determine eligibility and accurate pricing for the mortgage insurance we issue is dependent upon our underwriting and other operational routines. These underwriting routines may vary across the jurisdictions in which we do business. Deficiencies in actual practice in this area could have a material adverse impact on our results. In the event the premiums we agree to charge upon writing a mortgage insurance policy may not adequately compensate us for the risks and costs associated with the coverage, it may have a material adverse effect on our business, results of operation and financial condition.

A significant portion of our mortgage insurance coverage consists of mortgage loans with high loan-to-value ratios, which typically have claim incidence rates substantially higher than mortgage loans with lower loan-to-value ratios. In Canada and Australia, the risks of having a portfolio with a significant portion of high loan-to-value mortgages are greater than in the United States because we generally agree to cover 100% of the losses associated with mortgage defaults in those markets, compared to percentages in the United States that typically range between 10% and 35% of the loan amount. Although we take these factors into account in setting premiums, the difference in premium rates

may not be sufficient to compensate us for the greater risks associated with mortgage loans bearing higher loan-to-value ratios or 100% cover.



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**A decrease in the volume of high loan-to-value home mortgage originations or an increase in the volume of mortgage insurance cancellations could result in a decline in our revenue in our mortgage insurance businesses.**

We provide mortgage insurance primarily for high loan-to-value mortgages. Factors that could lead to a decrease in the volume of high loan-to-value mortgage originations include, but are not limited to:

an increase in the level of home mortgage interest rates and, in the United States, a reduction or loss of mortgage interest deductibility for federal income tax purposes;

implementation of more rigorous mortgage lending regulation, such as under the Dodd-Frank Act in the United States and APRA Prudential Practice Guides in Australia;

a decline in economic conditions generally, or in conditions in regional and local economies;

the level of consumer confidence, which may be adversely affected by economic instability, war or terrorist events;

an increase in the price of homes relative to income levels;

adverse population trends, including lower homeownership rates;

high rates of home price appreciation, which for refinancings affect whether refinanced loans have loan-to-value ratios that require mortgage insurance; and

changes in government housing policy encouraging loans to first-time home buyers.

A decline in the volume of high loan-to-value mortgage originations would reduce the demand for mortgage insurance and, therefore, could have a material adverse effect on our financial condition and results of operations.

In addition, a significant percentage of the premiums we earn each year in our U.S. mortgage insurance business are renewal premiums from insurance policies written in previous years. We estimate that approximately 87%, 88% and 90% , respectively, of our U.S. gross premiums earned in each of the years ended December 31, 2016, 2015 and 2014 were renewal premiums. As a result, the length of time insurance remains in-force is an important determinant of our mortgage insurance revenues. Fannie Mae, Freddie Mac and many other mortgage investors in the United States generally permit a homeowner to ask the loan servicer to cancel the borrower's obligation to pay for mortgage insurance when the principal amount of the mortgage falls below 80% of the home's value. Factors that tend to reduce the length of time our mortgage insurance remains in-force include:

declining interest rates, which may result in the refinancing of the mortgages underlying our insurance policies with new mortgage loans that may not require mortgage insurance or that we do not insure;

significant appreciation in the value of homes, which causes the size of the mortgage to decrease below 80% of the value of the home and enables the borrower to request cancellation of the mortgage insurance; and

changes in mortgage insurance cancellation requirements under applicable federal law or mortgage insurance cancellation practices by mortgage lenders and investors.

Our U.S. policy flow persistency rates increased from 46% for the year ended December 31, 2003 to elevated levels of 82%, 80% and 78% for the years ended December 31, 2014, 2015 and 2016, respectively. A decrease in persistency in the U.S. market generally would reduce the amount of our insurance in-force and could have a material adverse effect on our financial condition and results of operations. However, higher persistency on certain products, especially A minus, Alt-A, ARMs and certain 100% loan-to-value loans, could have a material adverse effect if claims generated by such products remain elevated or increase.

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### **The amount of mortgage insurance we write could decline significantly if alternatives to private mortgage insurance are used or lower coverage levels of mortgage insurance are selected.**

There are a variety of alternatives to private mortgage insurance that may reduce the amount of mortgage insurance we write. These alternatives include:

originating mortgages in the United States that consist of two simultaneous loans, known as simultaneous seconds, comprising a first mortgage with a loan-to-value ratio of 80% and a simultaneous second mortgage for the excess portion of the loan, instead of a single mortgage with a loan-to-value ratio of more than 80%;

using government mortgage insurance programs;

holding mortgages in the lenders' own loan portfolios and self-insuring;

using programs, such as those offered by Fannie Mae and Freddie Mac in the United States, requiring lower mortgage insurance coverage levels;

originating and securitizing loans in mortgage-backed securities whose underlying mortgages are not insured with private mortgage insurance or which are structured so that the risk of default lies with the investor, rather than a private mortgage insurer; and

using credit default swaps or similar instruments, instead of private mortgage insurance, to transfer credit risk on mortgages.

A decline in the use of private mortgage insurance in connection with high loan-to-value home mortgages for any reason would reduce the demand for flow mortgage insurance which could have a material adverse effect on our business, financial condition and results of operations.

### **Potential liabilities in connection with our U.S. contract underwriting services could have a material adverse effect on our financial condition and results of operations.**

We offer contract underwriting services to certain of our mortgage lenders in the United States, pursuant to which our employees and contractors work directly with the lender to determine whether the data relating to a borrower and a proposed loan contained in a mortgage loan application file complies with the lender's loan underwriting guidelines or the investor's loan purchase requirements. In connection with that service, we also compile the application data and submit it to the automated underwriting systems of Fannie Mae and Freddie Mac, which independently analyze the data to determine if the proposed loan complies with their investor requirements.

Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event that we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability. As a result, we assume credit and processing risk in connection with our contract underwriting services. If our reserves for potential claims in

connection with our contract underwriting services are inadequate as a result of differences from our estimates and assumptions or other reasons, we may be required to increase our underlying reserves, which could materially adversely affect our results of operations and financial condition.

**Medical advances, such as genetic research and diagnostic imaging, and related legislation could materially adversely affect the financial performance of our life insurance, long-term care insurance and annuity businesses.**

Genetic testing research and discovery is advancing at a rapid pace. Though some of this research is focused on identifying the genes associated with rare diseases, much of the research is focused on identifying the genes associated with an increased risk of various diseases such as diabetes, heart disease, cancer and Alzheimer's

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disease. Diagnostic testing utilizing various blood panels or imaging techniques may allow clinicians to detect similar diseases during an earlier phase. We believe that if an individual learns through such testing that they are predisposed to a condition that may reduce their life expectancy or increase their chances of requiring long-term care, they potentially will be more likely to purchase life and long-term care insurance policies or not permit their existing policy to lapse. In contrast, if an individual learns that they lack the genetic predisposition to develop the conditions that reduce longevity or require long-term care, they potentially will be less likely to purchase life and long-term care insurance products, but more likely to purchase certain annuity products and permit their life and long-term care insurance policies to lapse.

Being able to access and use the medical information (including the results of genetic and diagnostic testing) known to our prospective policyholders is important to ensure that an underwriting risk assessment matches the anticipated risk priced into our life and long-term care insurance products, as well as our annuity products. Currently, there are some state level restrictions related to an insurer's access and use of genetic information, and periodically new genetic testing legislation is being introduced. However, further restrictions on the access and use of such medical information could create a mismatch between an assessed risk and the product pricing. Such a mismatch has the potential to increase product pricing resulting in a decrease in sales and purchasers at increased risk becoming the more likely buyer. The net result of this could cause a deterioration in the risk profile of our portfolio which could lead to payments to our policyholders and contractholders that are materially higher than anticipated.

In addition to earlier diagnosis or knowledge of disease risk, medical advances may also lead to newer forms of preventive care which could improve an individual's overall health and longevity. If this were to occur, the duration of payments made by us under certain forms of our annuity contracts likely would increase thereby reducing our profitability on those products.

### **Other Risks**

#### **The occurrence of natural or man-made disasters or a pandemic could materially adversely affect our financial condition and results of operations.**

We are exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, floods and tornadoes, and man-made disasters, including acts of terrorism and military actions and pandemics. For example, a natural or man-made disaster or a pandemic could disrupt our computer systems and our ability to conduct or process business, as well as lead to unexpected changes in persistency rates as policyholders and contractholders who are affected by the disaster may be unable to meet their contractual obligations, such as payment of premiums on our insurance policies, deposits into our investment products, and mortgage payments on loans insured by our mortgage insurance policies. They could also significantly increase our mortality and morbidity experience above the assumptions we used in pricing our insurance and investment products. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster or a pandemic could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business and increased claims from those areas, as well as an adverse effect on home prices in those areas, which could result in increased loss experience in our mortgage insurance businesses. Disasters or a pandemic also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations.

A natural or man-made disaster or a pandemic could also disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us. For example, a natural or man-made disaster or a pandemic could lead to increased reinsurance prices or reduced availability of reinsurance and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. In addition, a

disaster or a pandemic could adversely affect the value of the assets in our investment portfolio if it affects companies ability to pay principal or interest on their securities or the value of the underlying collateral of structured securities or the value of the underlying collateral of structured securities.

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**We have significant deferred tax assets, and any impairments of or valuation allowances against these deferred tax assets in the future could materially adversely affect our results of operations and financial condition.**

We currently utilize significant deferred tax assets to offset income. The extent to which we can utilize deferred tax assets may be limited for various reasons, including but not limited to changes in tax rules or regulations and if projected future taxable income becomes insufficient to recognize the full benefit of our net operating loss ( NOL ) carryforwards prior to their expiration. Additionally, our ability to fully use these tax assets will also be adversely affected if we have an ownership change within the meaning of Section 382 of the U.S. Internal Revenue Code of 1986, as amended. An ownership change is generally defined as a greater than 50% increase in equity ownership by 5% shareholders (as that term is defined for purposes of Section 382) in any three-year period. Future changes in our stock ownership, depending on the magnitude, including the purchase or sale of our common stock by 5% shareholders, and issuances or redemptions of common stock by us, could result in an ownership change that would trigger the imposition of limitations under Section 382. Accordingly, there can be no assurance that in the future we will not experience limitations with respect to recognizing the benefits of our NOL carryforwards and other tax attributes for which limitations could have a material adverse effect on our results of operations, cash flows or financial condition.

During 2016, we recorded a valuation allowance of \$258 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 proposed transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

**We have agreed to make payments to GE based on the projected amounts of certain tax savings we expect to realize as a result of our IPO. We will remain obligated to make these payments even if we do not realize the related tax savings and the payments could be accelerated in the event of certain changes in control.**

Under the Tax Matters Agreement, we have an obligation to pay GE a fixed amount over approximately the next eight years. This fixed obligation, the estimated present value of which was \$173 million and \$188 million as of December 31, 2016 and 2015, respectively, equals 80% (subject to a cumulative \$640 million maximum amount) of the tax savings projected as a result of our IPO in 2004. Even if we fail to generate sufficient taxable income to realize the projected tax savings, we will remain obligated to pay GE, and this could have a material adverse effect on our financial condition and results of operations. We could also, subject to regulatory approval, be required to pay GE on an accelerated basis in the event of certain changes in control of our company.

**Provisions of our certificate of incorporation and bylaws and our Tax Matters Agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests.**

Our certificate of incorporation and bylaws include provisions that may have anti-takeover effects and may delay, deter or prevent a takeover attempt that our stockholders might consider in their best interests. For example, our certificate of incorporation and bylaws:

permit our Board of Directors to issue one or more series of preferred stock;

limit the ability of stockholders to remove directors;

limit the ability of stockholders to fill vacancies on our Board of Directors;

limit the ability of stockholders to call special meetings of stockholders and take action by written consent;  
and



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impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings.

Under our Tax Matters Agreement with GE, if any person or group of persons other than GE or its affiliates gains the power to direct the management and policies of our company, we could become obligated immediately to pay to GE the total present value of all remaining tax benefit payments due to GE over the full term of the agreement. The estimated present value of our fixed obligation as of December 31, 2016 and 2015 was \$173 million and \$188 million, respectively. Similarly, if any person or group of persons other than us or our affiliates gains effective control of one of our subsidiaries, we could become obligated to pay to GE the total present value of all such payments due to GE allocable to that subsidiary, unless the subsidiary assumes the obligation to pay these future amounts under the Tax Matters Agreement and certain conditions are met. The acceleration of payments would be subject to the approval of certain state insurance regulators, and we are obligated to use our reasonable best efforts to seek these approvals. This feature of the agreement could adversely affect a potential merger or sale of our company. It could also limit our flexibility to dispose of one or more of our subsidiaries, with adverse implications for any business strategy dependent on such dispositions.

**Risks Relating to Our Common Stock**

**The Board of Directors has decided to suspend dividends on our common stock until further notice.**

We paid quarterly dividends on our common stock from our IPO in May 2004 until November 2008 when the Board of Directors decided to suspend the payment of dividends on our common stock to enhance our liquidity and capital position as a result of the global financial crisis and the challenging economic environment. We cannot assure you when, whether or at what level we will resume paying dividends on our common stock.

**Our stock price will fluctuate.**

Stock markets in general, and our common stock in particular, have experienced significant price and volume volatility since late 2008. The market price and volume of our common stock may continue to be subject to significant fluctuations due not only to general stock market conditions but also to a change in sentiment in the market regarding our industry generally, as well as investor concern about, among other things, some of our products (including long-term care insurance), our operations, reserves, ratings, business prospects, liquidity and capital positions. In addition to the risk factors discussed above, the price and volume volatility of our common stock may be affected by, among other issues:

failure to complete the proposed transaction with China Oceanwide or to complete it in the timeframe, terms or manner currently anticipated;

our financial performance and condition and future prospects;

operating results that vary from the expectations of securities analysts and investors;

operating and securities price performance of companies that investors consider to be comparable to us;

announcements of strategic developments, acquisitions and other material events by us or our competitors;

changes in global financial markets and global economies and general market conditions;

rating agency announcements or actions with respect to the ratings of our company and our subsidiaries or our competitors;

changes in laws and regulations affecting our business; and

market prices for our equity securities.

Stock price volatility and a decrease in our stock price could make it difficult for us to raise equity capital or, if we are able to raise equity capital, could result in substantial dilution to our existing stockholders.

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**Item 1B. Unresolved Staff Comments**

We have no unresolved comments from the staff of the SEC.

**Item 2. Properties**

We own our headquarters facility in Richmond, Virginia, which consists of approximately 461,000 square feet in four buildings, as well as a facility in Lynchburg, Virginia with approximately 291,000 square feet. In addition, we lease approximately 203,000 square feet of office space in 9 locations throughout the United States. We also lease approximately 148,000 square feet in 11 locations outside the United States.

Most of our leases in the United States and other countries have lease terms of three to five years. Although some leases have longer terms, no lease has an expiration date beyond 2023. Our aggregate annual rental expense under all leases was \$12 million during the year ended December 31, 2016.

We believe our properties are adequate for our business as presently conducted.

**Item 3. Legal Proceedings**

See note 21 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for a description of material pending litigation and regulatory matters affecting us.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Market for Common Stock***

Our Class A Common Stock is listed on the New York Stock Exchange under the symbol GNW. The following table sets forth the high and low intra-day sales prices per share of our Class A Common Stock, as reported by the New York Stock Exchange, for the periods indicated:

<b>2016</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 3.88	\$ 1.57
Second Quarter	\$ 4.20	\$ 2.43
Third Quarter	\$ 5.23	\$ 2.26
Fourth Quarter	\$ 5.27	\$ 3.81

<b>2015</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 8.82	\$ 6.75
Second Quarter	\$ 9.19	\$ 7.27
Third Quarter	\$ 7.90	\$ 4.23
Fourth Quarter	\$ 5.75	\$ 3.46

As of February 15, 2017, we had 328 holders of record of our Class A Common Stock.

***Common Stock Performance Graph***

The following performance graph and related information shall not be deemed soliciting material nor to be filed with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.

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In November 2015, we were included in the S&P MidCap 400 Index, which is more representative of our total market capitalization. The following graph compares the cumulative total stockholder return on our Class A Common Stock with the cumulative total stockholder return on the S&P 500 Stock Index, S&P 500 Insurance Index and S&P MidCap 400 Index.

	2011	2012	2013	2014	2015	2016
Genworth Financial, Inc.	\$ 100.00	\$ 114.66	\$ 237.10	\$ 129.77	\$ 56.95	\$ 58.17
S&P 500®	\$ 100.00	\$ 116.00	\$ 153.57	\$ 174.60	\$ 177.01	\$ 198.18
S&P 500 Insurance Index	\$ 100.00	\$ 119.09	\$ 174.72	\$ 189.20	\$ 193.60	\$ 227.64
S&P MidCap 400 Index	\$ 100.00	\$ 117.88	\$ 157.37	\$ 172.74	\$ 168.98	\$ 204.03

**Dividends**

In November 2008, to enhance our liquidity and capital position in the challenging market environment, our Board of Directors suspended the payment of dividends on our 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 depend on many factors including our receipt of dividends from our operating subsidiaries, our financial condition and results of operations, 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. We cannot assure you when, whether or at what level we will resume paying dividends on our common stock.

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

We act as a holding company for our subsidiaries and do not have any significant operations of our own. As a result, our ability to pay dividends in the future will depend on receiving dividends from our subsidiaries. Our insurance subsidiaries are subject to the laws of the jurisdictions in which they are domiciled and licensed and consequently are limited in the amount of dividends that they can pay. See Part I Item 1 Business Regulation.

**Table of Contents****Item 6. Selected Financial Data**

The following table sets forth selected financial information. The selected financial information as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 has been derived from our consolidated financial statements, which have been audited by KPMG LLP and are included in Item 8 Financial Statements and Supplementary Data. You should read this information in conjunction with the information under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements, the related notes and the accompanying independent registered public accounting firm's report, which are included in Item 8 Financial Statements and Supplementary Data.

(Amounts in millions, except per share amounts)	Years ended December 31,				
	2016	2015	2014	2013	2012
<b>Consolidated Statements of Income Information</b>					
Revenues:					
Premiums	\$ 4,160	\$ 4,579	\$ 4,700	\$ 4,516	\$ 4,364
Net investment income	3,159	3,138	3,142	3,155	3,216
Net investment gains (losses)	72	(75)	(22)	(64)	22
Policy fees and other income	978	906	909	1,018	1,226
<b>Total revenues</b>	<b>8,369</b>	<b>8,548</b>	<b>8,729</b>	<b>8,625</b>	<b>8,828</b>
Benefits and expenses:					
Benefits and operating expenses	7,712	8,144	9,595	7,182	7,752
Interest expense	337	419	433	450	431
<b>Total benefits and expenses</b>	<b>8,049</b>	<b>8,563</b>	<b>10,028</b>	<b>7,632</b>	<b>8,183</b>
Income (loss) from continuing operations before income taxes	320	(15)	(1,299)	993	645
Provision (benefit) for income taxes	358	(9)	(94)	313	131
Income (loss) from continuing operations	(38)	(6)	(1,205)	680	514
Income (loss) from discontinued operations, net of taxes <sup>(1)</sup>	(29)	(407)	157	34	11
Net income (loss)	(67)	(413)	(1,048)	714	525
Less: net income attributable to noncontrolling interests <sup>(2)</sup>	210	202	196	154	200
Net income (loss) available to Genworth Financial, Inc.'s common stockholders	\$ (277)	\$ (615)	\$ (1,244)	\$ 560	\$ 325
Income (loss) from continuing operations available to Genworth Financial, Inc.'s common stockholders per common share:					
Basic	\$ (0.50)	\$ (0.42)	\$ (2.82)	\$ 1.07	\$ 0.64
Diluted <sup>(3)</sup>	\$ (0.50)	\$ (0.42)	\$ (2.82)	\$ 1.05	\$ 0.63

Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders per

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common share:

Basic <sup>(1)</sup>	\$ (0.06)	\$ (0.82)	\$ 0.32	\$ 0.07	\$ 0.02
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Diluted <sup>(1)</sup>	\$ (0.06)	\$ (0.82)	\$ 0.32	\$ 0.07	\$ 0.02
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Net income (loss) available to Genworth Financial, Inc. s

common stockholders per common share:

Basic	\$ (0.56)	\$ (1.24)	\$ (2.51)	\$ 1.13	\$ 0.66
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Diluted <sup>(3)</sup>	\$ (0.56)	\$ (1.24)	\$ (2.51)	\$ 1.12	\$ 0.66
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Weighted-average common shares outstanding: <sup>(4)</sup>

Basic	498.3	497.4	496.4	493.6	491.6
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Diluted <sup>(3)</sup>	498.3	497.4	496.4	498.7	494.4
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Cash dividends declared per common share	\$	\$	\$	\$	\$
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(Amounts in millions)	Years ended December 31,				
	2016	2015	2014	2013	2012
<b>Selected Segment Information</b>					
Total revenues:					
U.S. Mortgage Insurance	\$ 726	\$ 665	\$ 639	\$ 616	\$ 676
Canada Mortgage Insurance	645	564	669	760	786
Australia Mortgage Insurance	440	474	537	555	567
U.S. Life Insurance	6,250	6,545	6,587	6,330	6,250
Runoff	302	259	275	302	381
Corporate and Other	6	41	22	62	168
<b>Total</b>	<b>\$ 8,369</b>	<b>\$ 8,548</b>	<b>\$ 8,729</b>	<b>\$ 8,625</b>	<b>\$ 8,828</b>
Income (loss) from continuing operations available to Genworth Financial, Inc.'s common stockholders:					
U.S. Mortgage Insurance	\$ 249	\$ 179	\$ 91	\$ 37	\$ (114)
Canada Mortgage Insurance	159	140	167	182	239
Australia Mortgage Insurance	65	103	27	227	140
U.S. Life Insurance	(146)	(253)	(1,405)	384	274
Runoff	25	(5)	14	49	58
Corporate and Other	(600)	(372)	(295)	(353)	(283)
<b>Total</b>	<b>\$ (248)</b>	<b>\$ (208)</b>	<b>\$ (1,401)</b>	<b>\$ 526</b>	<b>\$ 314</b>
<b>Consolidated Balance Sheet Information</b>					
Total investments	\$ 71,569	\$ 69,128	\$ 71,773	\$ 67,203	\$ 72,638
All other assets <sup>(5)</sup>	33,089	37,176	37,400	38,370	37,663
Assets held for sale <sup>(1)</sup>		127	2,143	2,425	2,964
<b>Total assets</b>	<b>\$ 104,658</b>	<b>\$ 106,431</b>	<b>\$ 111,316</b>	<b>\$ 107,998</b>	<b>\$ 113,265</b>
Policyholder liabilities	\$ 75,359	\$ 74,087	\$ 73,313	\$ 69,733	\$ 70,744
Non-recourse funding obligations	310	1,920	1,981	2,021	2,047
Long-term borrowings	4,180	4,570	4,612	5,131	4,748
All other liabilities	10,342	11,090	13,519	14,242	16,527
Liabilities held for sale <sup>(1)</sup>		127	1,094	1,251	1,418
<b>Total liabilities</b>	<b>\$ 90,191</b>	<b>\$ 91,794</b>	<b>\$ 94,519</b>	<b>\$ 92,378</b>	<b>\$ 95,484</b>
Accumulated other comprehensive income (loss)	\$ 3,094	\$ 3,010	\$ 4,446	\$ 2,542	\$ 5,202
Noncontrolling interests <sup>(2)</sup>	\$ 1,823	\$ 1,813	\$ 1,874	\$ 1,227	\$ 1,288
<b>Total equity</b>	<b>\$ 14,467</b>	<b>\$ 14,637</b>	<b>\$ 16,797</b>	<b>\$ 15,620</b>	<b>\$ 17,781</b>
<b>U.S. Statutory Financial Information <sup>(6)</sup></b>					
Statutory capital and surplus <sup>(7)</sup>	\$ 5,575	\$ 5,631	\$ 5,409	\$ 5,104	\$ 4,489
Asset valuation reserve	\$ 351	\$ 339	\$ 311	\$ 272	\$ 218



- (1) On May 9, 2016, GMICO, our wholly-owned indirect subsidiary, sold our European mortgage insurance business, which was accounted for as held for sale and its financial position was separately reported for all periods presented. On December 1, 2015, we sold our lifestyle protection insurance business, which was accounted for as discontinued operations and its financial position and results of operations were separately reported for all periods presented. On August 30, 2013, we sold our wealth management business, which was accounted for as discontinued operations and its financial position and results of operations were separately reported for all periods presented. Also included in discontinued operations was our tax and advisor unit, Genworth Financial Investment Services, which was part of our wealth management business until its sale on April 2, 2012. See note 24 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information.

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- (2) Noncontrolling interests relate to the third-party public ownership of our Australian and Canadian mortgage insurance businesses. On May 21, 2014, Genworth Australia, a holding company for Genworth's Australian mortgage insurance business, completed an IPO of 220,000,000 of its ordinary shares. Following completion of the initial offering, we beneficially owned 66.2% of the ordinary shares of Genworth Australia. On May 15, 2015, we sold 92,300,000 of our shares in Genworth Australia at AUD\$3.08 per ordinary share. Following completion of this offering, Genworth Financial beneficially owns 52.0% of the ordinary shares of Genworth Australia through subsidiaries. We completed an IPO of our Canadian mortgage insurance business in July 2009 which reduced our ownership percentage to 57.5%. We currently hold approximately 57.2% of the outstanding common shares of Genworth Canada on a consolidated basis through subsidiaries. See note 23 in our consolidated financial statements under **Item 8 Financial Statements and Supplementary Data** for additional information related to noncontrolling interests.
- (3) 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 and net loss available to Genworth Financial, Inc.'s common stockholders for the years ended December 31, 2016, 2015 and 2014, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the years ended December 31, 2016, 2015 and 2014, as the inclusion of shares for stock options, restricted stock units (RSUs) and stock appreciation rights (SARs) of 2.0 million, 1.6 million and 5.6 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 and net loss available to Genworth Financial, Inc.'s common stockholders for the years ended December 31, 2016, 2015 and 2014, dilutive potential weighted-average common shares outstanding would have been 500.3 million, 499.0 million and 502.0 million, respectively.
- (4) The number of shares used in our calculation of diluted earnings per common share in 2012, 2013, 2014, 2015 and 2016 was affected by stock options, RSUs and SARs and was calculated using the treasury method.
- (5) We have several significant reinsurance transactions with UFLIC, an affiliate of GE, our former parent company, in which we ceded certain blocks of structured settlement annuities, variable annuities and long-term care insurance. As a result of these transactions, we transferred investment securities to UFLIC and recorded a reinsurance recoverable that was included in all other assets. For a discussion of this transaction, refer to note 8 in our consolidated financial statements under **Item 8 Financial Statements and Supplementary Data**.
- (6) We derived the U.S. Statutory Financial Information from Annual Statements of our U.S. domiciled insurance company subsidiaries that were filed with the insurance departments in states where we are domiciled and were prepared in accordance with statutory accounting practices prescribed or permitted by the insurance departments in states where we are domiciled. These statutory accounting practices vary in certain material respects from U.S. GAAP.
- (7) Combined statutory capital and surplus for our U.S. domiciled insurance subsidiaries includes surplus notes issued by our U.S. life insurance subsidiaries and statutorily required contingency reserves held by our U.S. mortgage insurance subsidiaries. The combined statutory capital and surplus as of December 31, 2015 was re-presented as if the merger of BLAIC with and into GLIC occurred on January 1, 2015 in accordance with the statutory merger method (see note 18 in **Part II Item 8 Financial Statements and Supplementary Data** for additional information). However, we did not re-present the combined statutory net loss for the years ended December 31, 2014, 2013 and 2012 in accordance with statutory accounting principles and, therefore, the amounts are not comparable.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included in Item 8 Financial Statements and Supplementary Data.*

**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; Canada Mortgage Insurance; Australia Mortgage Insurance; U.S. Life Insurance; and Runoff. We also have Corporate and Other activities.

***Our financial information***

The financial information in this Annual Report on Form 10-K has been derived from our consolidated financial statements.

***Revenues and expenses***

Our revenues consist primarily of the following:

***U.S. Mortgage Insurance.*** The revenues in our U.S. Mortgage Insurance segment consist primarily of:

net premiums earned on U.S. mortgage insurance policies;

net investment income and net investment gains (losses) on the segment's separate investment portfolio; and

fee revenues from contract underwriting services.

***Canada Mortgage Insurance.*** The revenues in our Canada Mortgage Insurance segment consist primarily of:

net premiums earned on Canada mortgage insurance policies; and

net investment income and net investment gains (losses) on the segment's separate investment portfolio.

***Australia Mortgage Insurance.*** The revenues in our Australia Mortgage Insurance segment consist primarily of:

net premiums earned on Australia mortgage insurance policies; and

net investment income and net investment gains (losses) on the segment's separate investment portfolio.

***U.S. Life Insurance.*** The revenues in our U.S. Life Insurance segment consist primarily of:

net premiums earned on individual and group long-term care insurance, individual term life insurance and single premium immediate annuities with life contingencies;

net investment income and net investment gains (losses) on the segment's separate investment portfolios; and

policy fees and other income, including surrender charges, mortality and expense risk charges, and other administrative charges.

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***Runoff.*** The revenues in our Runoff segment consist primarily of:

net investment income and net investment gains (losses) on the segment's separate investment portfolios; and

policy fees and other income, including mortality and expense risk charges, primarily from variable annuity contracts, and other administrative charges.

***Corporate and Other.*** The revenues in Corporate and Other activities consist primarily of:

net premiums earned primarily on mortgage insurance policies in certain smaller international mortgage insurance businesses;

unallocated net investment income and net investment gains (losses); and

policy fees and other income from other businesses that are managed outside of our operating segments and eliminations of inter-segment transactions.

Our expenses consist primarily of the following:

benefits provided to policyholders and contractholders and changes in reserves;

interest credited on general account balances;

acquisition and operating expenses, including commissions, marketing expenses, policy and contract servicing costs, overhead and other general expenses that are not capitalized (shown net of deferrals);

amortization of DAC and other intangible assets;

goodwill impairment charges;

interest and other financing expenses; and

income taxes.

We allocate corporate expenses to each of our operating segments using various methodologies, including based on the amount of capital allocated to each operating segment.

In the first quarter of 2015, we revised how we allocate our consolidated provision for income taxes to our operating segments to simplify our process and reflect how our chief operating decision maker is evaluating segment performance. Our revised 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. Previously, we calculated a unique income tax provision for each segment based on quarterly changes to tax attributes and implications of transactions specific to each product within the segment.

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. Prior year amounts have not been re-presented to reflect this revised presentation and are, therefore, not comparable to the current year provision for income taxes by segment. However, we do not believe that the previous methodology would have resulted in a materially different segment-level provision for income taxes.

Beginning in the first quarter of 2015, 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.

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### **Executive Summary of Financial Results**

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

#### ***2016 compared to 2015***

We had a net loss available to Genworth Financial, Inc.'s common stockholders of \$277 million and \$615 million, respectively.

During 2015, we recorded losses of \$407 million and \$141 million related to the sales of our lifestyle protection insurance business and our mortgage insurance business in Europe, respectively. During 2016, we recorded an additional loss of \$29 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 24 in our consolidated financial statements under Part II Item 8 Financial Statements and Supplementary Data for additional information related to the sale of businesses.

We recorded a DAC impairment of \$296 million in our life insurance business in the third quarter of 2015 related to a life block transaction that was completed in the first quarter of 2016 as discussed below.

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 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. For additional information, see Critical Accounting Estimates Liabilities for policy and contract claims. These decreases were partially offset by higher premiums and reduced benefits of \$130 million in 2016 from in-force rate actions approved and implemented.

During 2016, we recorded a valuation allowance of \$258 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 proposed transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

During 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.

#### ***2015 compared to 2014***

We had a net loss available to Genworth Financial, Inc.'s common stockholders of \$615 million in 2015 compared to \$1,244 million in 2014.

We recorded a DAC impairment of \$296 million in our life insurance business in the third quarter of 2015 related to a life block transaction that was completed in the first quarter of 2016 as discussed below. In addition, we recorded a charge of \$194 million related to our annual review of assumptions in our universal and term universal life insurance products in 2015. For additional information on DAC, PVFP and reserves, see Critical Accounting Estimates. We also had a net \$69 million of increased premiums and reduced benefits from in-force rate actions in our long-term care insurance business in 2015.

In 2015, we also recorded a loss of \$407 million related to our lifestyle protection insurance business and an estimated loss of \$141 million related to the planned sale of our mortgage insurance business in Europe. See note 24 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information.



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In 2014, we increased reserves in our long-term care insurance business by \$478 million as a result of our loss recognition testing completed in the fourth quarter of 2014 and by \$345 million related to the completion of a review of our claim reserves in the third quarter of 2014. For additional information on reserves, see *Critical Accounting Estimates Future policy benefits/Liability for policy and contract claims*. We also recorded goodwill impairments of \$791 million in our U.S. Life Insurance segment in 2014.

As we considered potential business portfolio changes in the fourth quarter of 2014, we recognized a tax charge of \$174 million associated with our Australian mortgage insurance business as we could no longer assert our intent to permanently reinvest earnings in that business. We also recorded a charge of \$31 million in the fourth quarter of 2014 in connection with our plans to sell our lifestyle protection insurance business from a change to the permanent reinvestment assertion on one of its legal entities.

**Significant Developments**

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

***Low interest rate environment***

Interest rates rose by as much as 40 basis points in response to the U.S. Presidential election and continued to rise steadily for the remainder of the fourth quarter of 2016, further supported by a 25 basis point hike in the Federal Reserve policy rate. 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 Deferred acquisition costs/Present value of future profits* 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 December 31, 2016, we reinvested \$3.1 billion at an average rate of 3.2% 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.

Overall, both U.S. and most global rates ended higher in 2016 as a result of the fourth quarter of 2016 activity but were lower on average versus 2015. 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.

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See Item 7A 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 Part I Item 1A Risk Factors Interest rates and changes in rates could materially adversely affect our business and profitability.

***Dispositions***

*Sale of our mortgage insurance business in Europe.* On May 9, 2016, we 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. See note 24 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information.

*Completed sale of a life insurance block.* On September 30, 2015, 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 \$296 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of this 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.

*Sale of our lifestyle protection insurance business.* On December 1, 2015, we sold our lifestyle protection insurance business to AXA and received approximately \$493 million with net proceeds of approximately \$400 million. See note 24 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information.

***U.S. Mortgage Insurance***

*PMIERS compliance.* As of December 31, 2016 and 2015, our U.S. mortgage insurance business was compliant with the PMIERS capital requirements, with a prudent buffer. As of December 31 2016, we estimate our U.S. mortgage insurance business had available assets of approximately 115% of the required assets under PMIERS compared to approximately 109% as of December 31, 2015. As of December 31, 2016 and December 31, 2015, the PMIERS sufficiency ratios were in excess of \$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. For additional information related to PMIERS, see Part I Item 1 Business Regulation Mortgage Insurance Regulation Other U.S. regulation.

*Adjusted operating income.* Adjusted operating income was \$250 million for the year ended December 31, 2016, an increase of \$71 million compared to 2015, driven mostly by lower losses and higher premiums primarily from growth in new insurance written in 2016.

***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 that resulted in a charge 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

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not reported reserves. See Critical Accounting Estimates Liability for policy and contract claims for additional information.

*Long-term care insurance margins.* In the fourth quarter of 2016, we completed our annual assumption review for our long-term care insurance business and our U.S. GAAP margins remain positive but decreased to a combined \$1.0 billion to \$1.5 billion as of December 31, 2016. For additional information on reserves, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Future policy benefits.

*Completion of life insurance assumption review.* We completed our annual review of assumptions in our life insurance business in the fourth quarter of 2016. As a result of this review, we recorded \$196 million of charges in our universal and term universal life insurance products. The negative impact was primarily driven by assumptions changes due to emerging mortality experience in older age populations with more modest assumption updates to interest rates, persistency and other refinements, partially offset by updated assumptions related to future policy charges. In the fourth quarter of 2015, we recorded \$194 million of charges, which included \$36 million of corrections related to reinsurance inputs, in our universal and term universal life insurance products. The 2015 updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements. For additional information on DAC and reserves, see Critical Accounting Estimates Deferred acquisition costs/Policyholder account balances.

*Completion of BLAIC repatriation.* In February 2016, as part of restructuring our U.S. life insurance businesses, we announced an initiative to repatriate existing reinsured business from 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.

*Suspension of sales of our traditional life insurance and fixed annuity products.* As part of our initiative announced on February 4, 2016 to restructure our U.S. life insurance businesses, we decided to suspend sales of our traditional life insurance and fixed annuity products on March 7, 2016 given the continued impact of ratings and recent sales levels of these products. This action, along with reducing expense levels in our U.S. life insurance businesses resulted in approximately \$50 million of pre-tax cash expense savings and \$18 million of restructuring charges in the first half of 2016.

*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 will continue to pursue, significant premium rate increases on our in-force blocks of business, as needed. The goal of our rate actions already implemented, as well as future rate actions, is to mitigate losses on our older generation policy series and help offset higher than priced-for loss ratios and lower returns on newer generation products. For all of these rate action filings, we received 96 filing approvals from 25 states in 2016, representing a weighted-average increase of 28% on approximately \$719 million in annualized in-force premiums. We also submitted 79 new filings in 32 states in 2016, representing approximately \$834 million in in-force premiums.

*RBC ratio.* The consolidated RBC ratio of our U.S. domiciled life insurance subsidiaries was approximately 329% as of December 31, 2016 and 372% as of December 31, 2015 as re-presented for the merger of BLAIC with and into GLIC (see note 18 in Part II Item 8 Financial Statements and Supplementary Data for additional information).

***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.

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*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 2021 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 a 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.

## **Business trends and conditions**

Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions. We have described certain materials trends and conditions in the relevant consolidated and segment discussions below.

## **Critical Accounting Estimates**

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.

*Valuation of fixed maturity securities.* Our portfolio of fixed maturity securities comprises primarily investment grade securities, which are carried at fair value.

Estimates of fair values for fixed maturity securities are obtained primarily from industry-standard pricing methodologies utilizing market observable inputs. For our less liquid securities, such as our privately placed securities, we utilize independent market data to employ alternative valuation methods commonly used in the financial services industry to estimate fair value. Based on the market observability of the inputs used in estimating the fair value, the pricing level is assigned.

The following tables summarize the primary sources of data considered when determining fair value of each class of fixed maturity securities as of December 31:

(Amounts in millions)	2016			
	Total	Level 1	Level 2	Level 3
Fixed maturity securities:				
Pricing services	\$ 55,290	\$	\$ 55,290	\$
Broker quotes	713			713
Internal models	4,569		981	3,588
Total fixed maturity securities	\$ 60,572	\$	\$ 56,271	\$ 4,301



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(Amounts in millions)	2015			
	Total	Level 1	Level 2	Level 3
Fixed maturity securities:				
Pricing services	\$ 52,141	\$	\$ 52,141	\$
Broker quotes	1,646			1,646
Internal models	4,410		876	3,534
<b>Total fixed maturity securities</b>	<b>\$ 58,197</b>	<b>\$</b>	<b>\$ 53,017</b>	<b>\$ 5,180</b>

See notes 2, 4 and 16 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to the valuation of fixed maturity securities and a description of the fair value measurement estimates and level assignments.

**Other-than-temporary impairments on available-for-sale securities.** As of each balance sheet date, we evaluate securities in an unrealized loss position for other-than-temporary impairments. For debt securities, we consider all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. For equity securities, we recognize an impairment charge in the period in which we determine that the security will not recover to book value within a reasonable period.

See notes 2 and 4 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to other-than-temporary impairments on available-for-sale securities.

**Derivatives.** We enter into freestanding derivative transactions primarily to manage the risk associated with variability in cash flows or changes in fair values related to our financial assets and liabilities. We also use derivative instruments to hedge certain currency exposures. Additionally, we purchase investment securities, issue certain insurance policies and engage in certain reinsurance contracts that have embedded derivatives. The associated financial statement risk is the volatility in net income (loss) which can result from among other things: (i) changes in the fair value of derivatives not qualifying as accounting hedges; (ii) changes in the fair value of embedded derivatives required to be bifurcated from the related host contract; (iii) ineffectiveness of designated hedges; and (iv) counterparty default. Accounting for derivatives is complex, as evidenced by significant authoritative interpretations of the primary accounting standards which continue to evolve. See notes 2, 5 and 16 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for an additional description of derivative instruments and fair value measurements of derivative instruments.

**Deferred acquisition costs.** DAC represents costs that are directly related to the successful acquisition of new and renewal insurance policies and investment contracts which are deferred and amortized over the estimated life of the related insurance policies. These costs primarily include commissions in excess of ultimate renewal commissions and underwriting and contract and policy issuance expenses for policies successfully acquired. DAC is subsequently amortized to expense in relation to the anticipated recognition of premiums or gross profits.

The amortization of DAC for traditional long-duration insurance products (including term life insurance, life-contingent structured settlements and immediate annuities and long-term care insurance) is determined as a level proportion of premium based on accepted actuarial methods and reasonable assumptions including related to investment returns, 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) and expenses, established when the contract or policy is issued. U.S. GAAP requires

that assumptions for these types of products not be modified (or unlocked) unless recoverability testing, also known as loss recognition testing, deems them to be inadequate. Amortization is adjusted each period to reflect actual lapses or terminations. Accordingly, we could experience accelerated amortization of DAC if policies lapse or terminate earlier than originally assumed, or if we fail recoverability testing.

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Amortization of DAC for deferred annuity and universal life insurance contracts is based on expected gross profits. Expected gross profits are adjusted quarterly to reflect actual experience to date or for the unlocking of underlying key assumptions including interest rates, policyholder persistency or lapses, insured mortality and expenses. The estimation of expected gross profits is subject to change given the inherent uncertainty as to the underlying key assumptions employed and the long duration of our policy or contract liabilities. Changes in expected gross profits reflecting the unlocking of underlying key assumptions could result in a material increase or decrease in the amortization of DAC depending on the magnitude of the change in underlying assumptions. Significant factors that could result in a material increase or decrease in DAC amortization for these products include material changes in withdrawal or lapse rates, investment spreads or mortality assumptions. For the years ended December 31, 2016, 2015 and 2014, key assumptions were unlocked in our U.S. Life Insurance and Runoff segments to reflect our current expectation of future investment spreads, lapse rates and mortality.

The amortization of DAC for mortgage insurance is based on expected gross margins. Expected gross margins, defined as premiums less losses, are set based on assumptions for future persistency and loss development of the business. These assumptions are updated for actual experience to date or as our expectations of future experience are revised based on experience studies. Due to the inherent uncertainties in making assumptions about future events, materially different experience from expected results in persistency or loss development could result in a material increase or decrease to DAC amortization. For the years ended December 31, 2016, 2015 and 2014, assumptions were unlocked in our mortgage insurance businesses to reflect our current expectation of future persistency and loss projections.

The following table sets forth the increase (decrease) in amortization of DAC related to unlocking of underlying key assumptions by segment for the years ended December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
U.S. Life Insurance	\$ 128	\$ 97	\$ 4
Australia Mortgage Insurance		1	
U.S. Mortgage Insurance		1	
Runoff	(2)	(5)	(9)
<b>Total</b>	<b>\$ 126</b>	<b>\$ 94</b>	<b>\$ (5)</b>

In the fourth quarter of 2016, as part of our annual review of assumptions, we increased DAC amortization by \$144 million in our universal and term universal life insurance products, reflecting updated assumptions primarily for mortality experience in older age populations, partially offset by updated assumptions related to future policy charges. The review of assumptions also contributed significantly to the 2016 impact on universal and term universal life policyholder account balances. Select sensitivities for persistency, long-term interest rates and mortality are more fully discussed under Insurance liabilities and reserves Policyholder account balances below.

In the fourth quarter of 2015, as part of our annual review of assumptions, we increased DAC amortization by \$109 million in our universal life insurance products, reflecting updated assumptions for persistency, long-term interest rates, mortality and other refinements. The review of assumptions also contributed significantly to the 2015 impact on universal and term universal life policyholder account balances.

In addition, we are required to analyze the impacts from net unrealized investment gains on our available-for-sale investment securities backing insurance liabilities, as if those unrealized gains were realized. As a result, as of

December 31, 2016, we reduced the DAC balance of our long-term care insurance business by \$439 million with an offsetting amount recorded in other comprehensive income (loss) due largely to the deterioration of the loss recognition testing margin of our long-term care insurance block, excluding the acquired block, in 2016. There was no impact on earnings. See Insurance liabilities and reserves Future policy benefits for additional details on our loss recognition testing margin of our long-term care insurance block, excluding the acquired block.

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The DAC amortization methodology for our variable products (variable annuities and variable universal life insurance) includes a long-term average appreciation assumption of 7.5% to 8.0%. When actual returns vary from the expected 7.5% to 8.0%, we assume a reversion to the expected return over a three-year period.

We review DAC for recoverability at least annually. For deferred annuity and universal life insurance contracts, if the present value of estimated future gross profits is less than the unamortized DAC for a line of business, a charge to income is recorded for additional DAC amortization. For traditional long-duration and short-duration contracts, if the benefit reserves plus anticipated future premiums and interest income for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. The evaluation of DAC recoverability is subject to inherent uncertainty and requires significant judgment and estimates to determine the present values of future premiums, estimated gross profits and expected losses and expenses of our businesses.

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. Additional information related to the premium deficiency of our fixed immediate annuity products is more fully discussed under Insurance liabilities and reserves Future policy benefits below.

As of December 31, 2016, we believe all of our other businesses have sufficient future income where the related DAC would be recoverable under selected adverse variations in our assumptions. For a discussion of our long-term care insurance margins, see Insurance liabilities and reserves Future policy benefits below.

As part of a life block transaction in 2015, we recorded \$455 million of additional DAC amortization to reflect loss recognition on certain term life insurance policies. This life block transaction was completed in the first quarter of 2016. For the year ended December 31, 2015 and 2014, there were no other charges to income (loss) as a result of our DAC loss recognition testing.

See notes 2 and 6 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to DAC.

***Present value of future profits.*** In conjunction with the acquisition of a block of insurance policies or investment contracts, a portion of the purchase price is assigned to the right to receive future gross profits arising from these insurance and investment contracts. This intangible asset, called PVFP, represents the actuarially estimated present value of future cash flows from the acquired policies. PVFP is amortized, net of accreted interest, in a manner similar to the amortization of DAC.

We regularly review our assumptions and periodically test PVFP for recoverability in a manner similar to our treatment of DAC. As of December 31, 2016, we believe all of our businesses have sufficient future income where the related PVFP is recoverable based on our best estimate assumptions.

For the years ended December 31, 2016 and 2015, there were no charges to income as a result of our PVFP recoverability testing. During the fourth quarter of 2014, the loss recognition testing for our acquired block of long-term care insurance business resulted in a premium deficiency as described in Insurance liabilities and reserves Future policy benefits below. As a result, we wrote off the entire PVFP balance for our long-term care insurance business of \$6 million through amortization with a corresponding change to net unrealized investment gains

(losses). The results of the test were primarily driven by changes in our expectations for future severity of claims, including higher utilization of available benefits and lower rates at which claims terminate.

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See notes 2 and 7 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to PVFP.

***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, and changes in these factors, can affect future experience 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 healthcare 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 or benefit reductions; expenses; and doctrines of legal liability and damage awards in litigation. Because these assumptions relate to factors that 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. Moreover, we may not be able to mitigate the impact of unexpected adverse experience by increasing premiums and/or other charges to policyholders (where we have the right to do so) or by offering reduced benefits as an alternative to increasing premiums.

Insurance reserves differ for long- and short-duration insurance policies. Measurement of reserves for long-duration insurance contracts (such as life insurance, annuity and long-term care insurance products) is based on approved actuarial methods, and includes assumptions about mortality, morbidity, lapses, interest rates and other factors. Short-duration contracts are accounted for based on actuarial estimates of the amount of loss inherent in that period of claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

***Future policy benefits***

The liability for future policy benefits is equal to the present value of future benefits and expenses, less the present value of expected future net premiums based on assumptions including investment returns, 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) and expenses. In our long-term care insurance business, our assumptions also include anticipated future premium increases from future in-force rate actions (including anticipated actions that have not yet received regulatory approval). The liability for future policy benefits is reviewed at least annually as a part of our loss recognition testing using current assumptions based on the manner of acquiring, servicing and measuring the profitability of the insurance contracts. Loss recognition testing is generally performed at the line of business level, with acquired blocks and certain reinsured blocks tested separately. Changes in how we manage certain policies could require separate loss recognition testing and could result in future charges to income.

***Long-term care insurance block, excluding our acquired block***

We annually perform loss recognition testing for the liability for future policy benefits for our long-term care insurance products in the aggregate, excluding our acquired block of long-term care insurance, which is tested separately. The results of historic loss recognition testing were mostly driven by changes to assumptions and methodologies primarily impacting claim termination rates, most significantly in later-duration claims, and benefit

utilization rates. Claim termination rates refer to the expected rates at which claims end. Benefit utilization rates estimate how much of the available policy benefits are expected to be used. Beginning in the fourth quarter of 2014, we began including future rate actions in our loss recognition testing in addition to those rate actions that had already been filed and approved or awaiting regulatory approval. Our assumption for future



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anticipated rate actions is based on our best estimate of the rate increases we expect given our claims cost expectations and uses our historical experience from rate increase approvals. In addition, we review other assumptions, particularly related to claim frequency, lapse rates, morbidity, mortality improvement and expenses, and update these assumptions as appropriate.

In 2016 and 2015, the results of our loss recognition testing on our long-term care insurance block, excluding the acquired block, indicated that our DAC was recoverable and reserves were sufficient, with a margin of approximately \$0.8 billion to \$1.3 billion as of December 31, 2016 compared to approximately \$2.5 billion to \$3.0 billion as of December 31, 2015. Our loss recognition testing margin decreased in 2016 primarily from higher expected future claim costs driven mostly by claim assumption updates impacting claim termination and benefit utilization rates, partially offset by the impact of anticipated premiums driven mostly by future in-force rate actions. The assumption for future anticipated rate actions increased our margin by approximately \$7.3 billion, an increase of approximately \$1.3 billion from 2015. Although the impact of higher anticipated premiums had a positive impact on the 2016 margin, that impact was not sufficient enough to mitigate the adverse impact on our margin from changes to our assumptions, as discussed below.

We assume a static discount rate that is in line with our current portfolio yield. Our discount rate assumption for our long-term care insurance block, excluding the acquired block, was 5.31% in 2016 and 5.24% in 2015. This rate represents our expected investment returns based on the portfolio of assets supporting the net U.S. GAAP liability as of the calculation date and, therefore, excluded the benefits of qualifying hedge gains that are not currently amortizing. As of December 31, 2016 and 2015, the liability for future policy benefits associated with our long-term care insurance block, excluding the acquired block, was \$19.2 billion and \$18.0 billion, respectively.

The impact on our 2016 long-term care insurance loss recognition testing margin for select sensitivities were as follows:

<b>(Amounts in millions)</b>	<b>Long-Term Care Insurance Block (Excluding the Acquired Block)</b>
Sensitivities on 2016 loss recognition testing:	
5% relative increase in future claim costs	\$ (2,300)
Discount rate decrease of 25 basis points	(1,200)
10% reduction in benefit of future in-force rate actions	(730)

The margin impacts in the table above are each discrete and do not reflect the impact one factor may have on another. For example, the increases in claims costs do not include any offsetting impacts from potential future rate actions. Any such offset from rate actions would primarily impact our long-term care insurance block, excluding the acquired block.

Any future adverse changes in our assumptions could result in both the impairment of DAC associated with our long-term care insurance products as well as the establishment of additional future policy benefit reserves. Any favorable changes would result in additional margin in our loss recognition test and would result in higher income over the remaining duration of the in-force block. Our positive margin for our long-term care insurance business, excluding the acquired block, is dependent on our assumptions regarding our ability to successfully implement our

in-force management strategy involving premium increases or reduced benefits. For our long-term care insurance block, excluding the acquired block, any adverse changes in assumptions would only be reflected in net income (loss) to the extent the margin was reduced below zero.

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**Table of Contents***Profits followed by losses*

With respect to our long-term care insurance block, excluding the acquired block, while loss recognition testing supports that in the aggregate our reserves are sufficient, our future projections indicate we have projected profits in earlier periods followed by projected losses in later periods. As a result of this pattern of projected profits followed by projected losses, we will ratably accrue additional future policy benefit reserves over the profitable periods, currently expected to be through approximately 2032, by the amounts necessary to offset estimated losses during the periods that follow. Such additional reserves are updated each period and calculated based on our estimate of the amount necessary to offset the losses in future periods utilizing expected income and current best estimate assumptions based on actual and anticipated experience, consistent with our loss recognition testing. We adjust the accrual rate prospectively, over the remaining profit periods, without any catch-up adjustment. During the years ended December 31, 2016 and 2015, we increased our long-term care insurance future policy benefit reserves by \$17 million and \$13 million, respectively, to accrue for profits followed by losses. As of December 31, 2016, the total amount accrued for profits followed by losses was \$30 million. The accrual was impacted by the pattern and present value of expected future losses and is updated annually at the time in which we perform loss recognition testing. In general, a higher present value of expected losses will increase the accrual. During the fourth quarter of 2016, we updated our loss recognition testing assumptions which resulted in an increase in the present value of expected losses. The present value of expected losses was approximately \$2,200 million and \$500 million as of December 31, 2016 and 2015, respectively. The increase in the present value of expected losses was largely related to the deterioration of the loss recognition testing margin of our long-term care insurance block, excluding the acquired block as described above. We currently estimate approximately 66% of those profits on our long-term care insurance block, excluding the acquired block, will be accrued in the future to offset estimated future losses during later periods, which will reduce our earnings going forward. In 2015, we estimated a factor of approximately 15% to ratably accrue additional future policy benefits. The increase in this factor represents a higher ratio of the present value of expected losses to the present value of expected profits and will result in lower recognized profits in the future. The higher present value of expected losses and higher factor were due to changes in assumptions mostly for claim termination and benefit utilization rates.

*Acquired block of long-term care insurance*

In 2014, for our acquired block of long-term care insurance, we performed our loss recognition testing and determined that we had negative margin of \$716 million. As a result, we wrote off the remaining PVFP balance of \$6 million and increased our future policy benefit reserves by \$710 million. The results of the test were driven by changes to assumptions and methodologies primarily impacting claim termination rates, most significantly in later-duration claims, and benefit utilization rates. The updated assumptions from 2014 remain locked-in until such time as another premium deficiency exists. Due to the premium deficiency that existed in 2014, we monitor our acquired block more frequently than annually.

In 2016 and 2015, our acquired block of long-term care insurance had positive margin of approximately \$200 million and \$10 million, respectively. Our discount rate assumption increased slightly from 7.02% in 2015 to 7.04% in 2016. As of December 31, 2016 and 2015, the liability for future policy benefits associated with our acquired block of long-term care insurance was \$2.4 billion and \$2.6 billion, respectively.

The impact on our 2016 long-term care insurance loss recognition testing margin for select sensitivities were as follows:

<b>(Amounts in millions)</b>	<b>Acquired Block</b>
Sensitivities on 2016 loss recognition testing margin:	
5% relative increase in future claim costs	\$ (170)
Discount rate decrease of 25 basis points	(40)
10% reduction in benefit of future in-force rate actions	(15)

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The margin impacts in the table above are each discrete and do not reflect the impact one factor may have on another. For example, the increases in claims costs do not include any offsetting impacts from potential future rate actions. 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.

Any future adverse changes in our assumptions could result in the establishment of additional future policy benefit reserves. Any favorable changes would result in additional margin in our loss recognition test and higher income over the remaining duration of the in-force 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 annuities*

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 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. There was no premium deficiency in the fourth quarter of 2016 as our fixed immediate annuity products had positive margin of \$8 million. The 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 would 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 (loss), 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 more frequently than annually.

The risks we face include adverse variations in interest rates, credit spreads and/or mortality. Adverse experience in one or all of these risks would result in the establishment of additional benefit reserves and would be immediately reflected in net income (loss) if our margin for this block is reduced to below zero. As of December 31, 2016, for our fixed immediate annuity products, we estimate that a combined 50 basis point reduction in interest rates or credit spreads from the December 31, 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 margin reduction of approximately \$32 million or \$23 million, respectively.

*Policyholder account balances*

The liability for policyholder account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date for investment-type and universal life insurance contracts. We are also required to establish additional benefit reserves for guarantees or product features in addition to the contract value where the additional benefit reserves are calculated by applying a benefit ratio to accumulated contractholder assessments, and then deducting accumulated paid claims. The benefit ratio is equal to the ratio of benefits to assessments, accumulated with interest and considering both past and anticipated future experience.

In the fourth quarter of 2016, as part of our annual review of assumptions, we increased the liability for policyholder account balances by \$202 million for our universal and term universal life insurance products, reflecting updated assumptions primarily for mortality experience in older age populations. In the fourth quarter of

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2015, as part of our annual review of assumptions, we increased the liability for policyholder account balances by \$175 million for our universal and term universal life insurance products, reflecting updated assumptions for persistency, long-term interest rates, mortality and other refinements. As of December 31, 2016 and 2015, we had DAC of \$673 million and \$898 million, respectively, and total policyholder account balances including reserves in excess of the contract value of \$7,728 million and \$7,490 million, respectively, related to our universal and term universal life insurance products. As of December 31, 2016, for our universal and term universal life insurance products, 2% higher mortality would result in a charge to earnings of approximately \$35 million. This is an adverse change that we consider to be reasonably possible given historical changes in experience of these products. Adverse experience in persistency and long-term interest rates could also result in the DAC amortization associated with those products being accelerated as well as the establishment of higher additional benefit reserves. Any favorable changes in these assumptions would result in lower DAC amortization as well as a reduction in the liability for policyholder account balances.

***Liability for policy and contract claims***

The liability for policy and contract claims represents the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. The estimated liability includes requirements for future payments of: (a) claims that have been reported to the insurer; (b) claims related to insured events that have occurred but that have not been reported to the insurer as of the date the liability is estimated; and (c) claim adjustment expenses. Claim adjustment expenses include costs incurred in the claim settlement process such as legal fees and costs to record, process and adjust claims.

Our liability for policy and contract claims is reviewed regularly, with changes in our estimates of future claims recorded through net income (loss).

The following table sets forth our recorded liability for policy and contract claims by business as of December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>
Long-term care insurance	\$ 8,034	\$ 6,749
U.S. mortgage insurance	635	849
Life insurance	226	202
Australia mortgage insurance	211	165
Canada mortgage insurance	112	87
Fixed annuities	16	18
Runoff	15	18
Other mortgage insurance	7	7
<b>Total liability for policy and contract claims</b>	<b>\$ 9,256</b>	<b>\$ 8,095</b>

***Long-term care insurance***

The liability for policy and contract claims, also known as claim reserves, for our long-term care insurance products represents the present value of the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. Key assumptions include investment returns, 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) and expenses. Our discount rate assumption assumes a static discount rate in-line with our current portfolio yield.



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During the third quarter of 2014, we completed a comprehensive review of our long-term care insurance claim reserves. This review was commenced as a result of adverse claims experience during the second quarter of 2014 and in connection with our regular review of our claim reserve assumptions during the third quarter of each year. As a result of this review, we made changes to our assumptions and methodologies relating to our long-term care insurance claim reserves primarily impacting claim termination rates, most significantly in later-duration claims, and benefit utilization rates, reflecting that claims are not terminating as quickly and claimants are utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. As a result of these changes, we increased our long-term care insurance claim reserves by \$604 million, before reinsurance, during the third quarter of 2014. The changes in our assumptions relating to our long-term care insurance claim reserves also informed the review of and changes to assumptions and methodologies used in our fourth quarter of 2014 loss recognition testing, as discussed above. In 2015, we reviewed our assumptions and based on experience, no adjustment was required.

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 addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance claim reserves by \$222 million with an offsetting increase in reinsurance recoverables of \$222 million in the fourth quarter of 2016.

*Mortgage insurance*

Estimates of mortgage insurance reserves for losses and loss adjustment expenses are based on notices of mortgage loan defaults and estimates of defaults that have been incurred but have not been reported by loan servicers, using assumptions developed based on past experience and our expectation of future development. These assumptions include claim rates for loans in default, the average amount paid for loans that result in a claim and an estimate of the number of loans in our delinquency inventory that will be rescinded or modified (collectively referred to as loss mitigation actions ) based on the effects that such loss mitigation actions have had on our historical claim frequency rates, including an estimate for reinstatement of previously rescinded coverage. Each of these assumptions is established by management based on historical and expected experience. We have established processes, as well as contractual rights, to ensure we receive timely information from loan servicers to aid us in the establishment of our estimates. In addition, when we have obtained sufficient facts and circumstances through our investigative process, we have the unilateral right under our master policies and at law to rescind coverage *ab initio* on the underlying loan certificate as if coverage never existed. As is common accounting practice in the mortgage insurance industry and in accordance with U.S. GAAP, loss reserves are not established for future claims on insured loans that are not currently in default.

Management reviews quarterly the loss reserves for adequacy, and if indicated, updates the assumptions used for estimating and calculating such reserves based on actual experience and our historical frequency of claim and severity of loss rates that are applied to the current population of delinquencies. Factors considered in establishing loss reserves include claim frequency patterns (reflecting the loss mitigation actions on such claim patterns), the aged

category of the delinquency (i.e., age and progression of delinquency to claim) and loan coverage percentage. The establishment of our mortgage insurance loss reserves is subject to inherent uncertainty and requires judgment. The actual amount of the claim payments may vary significantly from the loss reserve estimates. Our estimates could be adversely affected by several factors, including, but not limited to, a

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deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, a drop in housing values that could expose us to greater loss on resale of properties obtained through foreclosure proceedings and an adverse change in the effectiveness of loss mitigation actions that could result in an increase in the frequency of expected claim rates. Our estimates are also affected by the extent of fraud and misrepresentation that we uncover in the loans that we have insured and the coverage upon which we have consequently rescinded or may rescind going forward. Our loss reserving methodology includes estimates of the number of loans in our delinquency inventory that will be rescinded or modified, as well as estimates of the number of loans for which coverage may be reinstated under certain conditions following a rescission action.

In considering the potential sensitivity of the factors underlying management's best estimate of our mortgage insurance reserves for losses, it is possible that even a relatively small change in estimated delinquency-to-claim rate (frequency) or a relatively small percentage change in estimated claim amount (severity) could have a significant impact on reserves and, correspondingly, on results of operations. Based on our actual experience during the three-year period ended December 31, 2016 in our U.S. mortgage insurance business, a quarterly change of, for example, 1% in the average frequency reserve factor would change the gross reserve amount for such quarter by approximately \$19 million for our U.S. mortgage insurance business. Based on our actual experience during 2016, a quarterly change of, for example, \$1,000 in the average severity reserve factor combined with a 1% change in the average frequency reserve factor would change the gross reserve amount by approximately \$3 million and \$9 million for our mortgage insurance businesses in Canada and Australia, respectively, based on current exchange rates.

***Unearned premiums.*** In our mortgage insurance businesses in Canada and Australia, the majority of our insurance contracts are single premium. For single premium insurance contracts, we recognize premiums over the policy life in accordance with the expected pattern of risk emergence. We recognize a portion of the revenue in premiums earned in the current period, while the remaining portion is deferred as unearned premiums and earned over time in accordance with the expected pattern of risk emergence. If single premium policies are cancelled and the premium is non-refundable, then the remaining unearned premium related to each cancelled policy is recognized as earned premiums upon notification of the cancellation, if not included in our expected earnings pattern. The expected pattern of risk emergence on which we base premium recognition is inherently judgmental and is based on actuarial analysis of historical and expected experience. Changes in market conditions could cause a decline in mortgage originations, mortgage insurance penetration rates or our market share, all of which could impact new insurance written. For example, a decline in flow new insurance written of \$1.0 billion in Canada and Australia would result in a reduction in earned premiums of approximately \$6 million and \$3 million, respectively, in the first full year following the decline in flow new insurance written based on current pricing and expected pattern of risk emergence. However, this decline would be partially offset by the recognition of earned premiums from established unearned premium reserves primarily from the last three years of business.

As of December 31, 2016 and 2015, we had \$3.4 billion and \$3.3 billion, respectively, of unearned premiums, of which \$1.6 billion and \$1.5 billion, respectively, related to our mortgage insurance business in Canada and \$0.9 billion and \$1.0 billion, respectively, related to our mortgage insurance business in Australia. In our mortgage insurance businesses, we recognize unearned premiums over a period of up to 20 years, most of which are recognized between three and seven years from issue date. The recognition of earned premiums for our mortgage insurance businesses in Canada and Australia involves significant estimates and assumptions as to future loss development and policy cancellations. These assumptions are based on our historical experience and our expectations of future performance, which are highly dependent on assumptions as to long-term macroeconomic conditions including interest rates, home price appreciation and the rate of unemployment. We regularly review our expected pattern of risk emergence and make adjustments based on actual experience and changes in our expectation of future performance with any adjustments reflected in current period income. For the years ended December 31, 2016, 2015 and 2014, increases to earned premiums in our mortgage insurance businesses in Canada and Australia as a result of adjustments

made to our expected pattern of risk emergence and policy cancellation assumptions were zero, \$8 million and \$6 million, respectively.

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Our expected pattern of risk emergence for our mortgage insurance businesses in Canada and Australia is subject to change given the inherent uncertainty as to the underlying loss development and policy cancellation assumptions and the long duration of our international mortgage insurance policy contracts. Actual experience that is different than expected for loss development or policy cancellations could result in a material increase or decrease in the recognition of earned premiums depending on the magnitude of the difference between actual and expected experience. Loss development emergence and policy cancellation variations could result in an increase or decrease in after-tax operating results depending on the magnitude of variation experienced (assuming other assumptions held constant).

In our U.S. mortgage insurance business, the majority of our insurance contracts have recurring premiums. We recognize recurring premiums over the terms of the related insurance policy on a pro-rata basis (i.e., monthly). Changes in market conditions could cause a decline in mortgage originations, mortgage insurance penetration rates and our market share, all of which could impact new insurance written. For example, a decline in flow new insurance written of \$1.0 billion would result in a reduction in earned premiums of approximately \$5 million in the first full year. Likewise, if flow persistency declined on our existing insurance in-force by 10%, earned premiums would decline by approximately \$68 million during the first full year, potentially offset by lower reserves due to policies no longer being in force.

The remaining portion of our unearned premiums primarily relates to our long-term care insurance business where the underlying assumptions related to premium recognition are not subject to significant uncertainty. Accordingly, changes in underlying assumptions as to premium recognition we consider being reasonably possible for this business would not result in a material impact on our results of operations.

***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.

As of December 31, 2016, we had a net deferred tax liability of \$53 million. We had a consolidated gross deferred tax asset of \$906 million related to NOL carryforwards of \$2,627 million as of December 31, 2016, which, if unused, will expire beginning in 2021. Foreign tax credit carryforwards amounted to \$690 million as of December 31, 2016, which, if unused, will begin to expire in 2021. The amount of NOLs and foreign tax credit carryforwards set to expire in 2021 is \$35 million and \$58 million, respectively. As of December 31, 2016, we had a \$601 million valuation allowance related to state deferred tax assets, foreign tax credits, foreign net operating losses, and a specific federal separate tax return net operating loss deferred tax asset.

In our latest 2016 financial projections, which included 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

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allowance of \$258 million related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the proposed transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership.

We are in a three-year cumulative pre-tax loss position in our U.S. jurisdiction as of December 31, 2016. A cumulative loss position is considered significant negative evidence in assessing the realizability of our deferred tax assets. Our ability to realize our U.S. deferred tax asset of \$2,191 million, which includes deferred tax assets of \$1,596 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: (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 claim and assumption reviews in our long-term care and life insurance businesses, respectively, in our U.S. Life Insurance segment in 2016, 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, result in utilization of most of the net deferred tax assets within the U.S. federal carryforward periods based on our current projections, including in-force premium rate actions already obtained in our long-term care insurance business and the lack of future sales and related expenses for our traditional life insurance and fixed annuity products given our suspension of new sales included in these forecasts and the significant taxable temporary differences that exist; (iii) overall domestic losses that we have incurred are allowed to be reclassified as foreign source income to the extent of 50% of domestic source income produced in subsequent years, and such resulting foreign source income is sufficient to cover the foreign tax credits being carried forward; and, (iv) tax planning strategies that assume that we will not elect to take foreign tax credits and instead deduct foreign taxes in some prior tax years. After consideration of all available evidence, we have recorded a valuation allowance of \$258 million. If our actual results do not validate the current projections of pre-tax income, we may be required to record an additional valuation allowance that could have a material impact on our consolidated financial statements in future periods.

***Contingent liabilities.*** A liability is contingent if the amount is not presently known, but may become known in the future as a result of the occurrence of some uncertain future event. We estimate our contingent liabilities based on management's estimates about the probability of outcomes and their ability to estimate the range of exposure. Accounting standards require that a liability be recorded if management determines that it is probable that a loss has occurred and the loss can be reasonably estimated. In addition, it must be probable that the loss will be confirmed by some future event. As part of the estimation process, management is required to make assumptions about matters that are by their nature highly uncertain.

The assessment of contingent liabilities, including legal and income tax contingencies, involves the use of estimates, assumptions and judgments. Management's estimates are based on their belief that future events will validate the current assumptions regarding the ultimate outcome of these exposures. However, there can be no assurance that future events, such as court decisions or IRS positions, will not differ from management's assessments. Whenever practicable, management consults with third-party experts (including attorneys, accountants and claims administrators) to assist with the gathering and evaluation of information related to contingent liabilities. Based on internally and/or externally prepared evaluations, management makes a determination whether the potential exposure requires accrual in the consolidated financial statements.

**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



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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 an increase in the second half of 2016 after sharp declines during the second quarter of 2016 mostly in response to the U.S. Presidential election and further supported by a 25 basis point hike in the Federal Reserve policy rate. 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.

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.

**Table of Contents****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.

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Revenues:</b>							
Premiums	\$ 4,160	\$ 4,579	\$ 4,700	\$ (419)	(9)%	\$ (121)	(3)%
Net investment income	3,159	3,138	3,142	21	1%	(4)	%
Net investment gains (losses)	72	(75)	(22)	147	196%	(53)	NM <sup>(1)</sup>
Policy fees and other income	978	906	909	72	8%	(3)	%
<b>Total revenues</b>	<b>8,369</b>	<b>8,548</b>	<b>8,729</b>	<b>(179)</b>	<b>(2)%</b>	<b>(181)</b>	<b>(2)%</b>
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	5,245	5,149	6,418	96	2%	(1,269)	(20)%
Interest credited	696	720	737	(24)	(3)%	(17)	(2)%
Acquisition and operating expenses, net of deferrals	1,273	1,309	1,138	(36)	(3)%	171	15%
Amortization of deferred acquisition costs and intangibles	498	966	453	(468)	(48)%	513	113%
Goodwill impairment			849		%	(849)	(100)%
Interest expense	337	419	433	(82)	(20)%	(14)	(3)%
<b>Total benefits and expenses</b>	<b>8,049</b>	<b>8,563</b>	<b>10,028</b>	<b>(514)</b>	<b>(6)%</b>	<b>(1,465)</b>	<b>(15)%</b>
<b>Income (loss) from continuing operations</b>							
before income taxes	320	(15)	(1,299)	335	NM <sup>(1)</sup>	1,284	99%
Provision (benefit) for income taxes	358	(9)	(94)	367	NM <sup>(1)</sup>	85	90%
<b>Loss from continuing operations</b>	<b>(38)</b>	<b>(6)</b>	<b>(1,205)</b>	<b>(32)</b>	<b>NM<sup>(1)</sup></b>	<b>1,199</b>	<b>100%</b>
Income (loss) from discontinued operations, net of taxes	(29)	(407)	157	378	93%	(564)	NM <sup>(1)</sup>
<b>Net loss</b>	<b>(67)</b>	<b>(413)</b>	<b>(1,048)</b>	<b>346</b>	<b>84%</b>	<b>635</b>	<b>61%</b>
Less: net income attributable to noncontrolling interests	210	202	196	8	4%	6	3%
<b>Net loss available to Genworth Financial, Inc. s common stockholders</b>	<b>\$ (277)</b>	<b>\$ (615)</b>	<b>\$ (1,244)</b>	<b>\$ 338</b>	<b>55%</b>	<b>\$ 629</b>	<b>51%</b>

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

***2016 compared to 2015***

*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 \$458 million. Our life insurance business decreased \$517 million attributable to higher ceded reinsurance and lower sales in 2016. 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 \$18 million principally from lower sales of our life-contingent products in 2016. Our long-term care insurance business increased \$77 million principally from \$125 million of increased premiums in 2016 from in-force rate actions approved and implemented, partially offset by policy terminations in 2016.

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Our Australia Mortgage Insurance segment decreased \$20 million primarily driven by lower flow volume and the seasoning of our smaller prior year in-force blocks of business in 2016, 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 2015 that did not recur. These decreases were partially offset by higher premiums in 2016 as a result of the premium recognition factors that were refined in 2015, lower ceded reinsurance and higher policy cancellations. The year ended December 31, 2016 included a decrease of \$8 million attributable to changes in foreign exchange rates.

Corporate and Other activities decreased \$13 million largely related to the sale of our European mortgage insurance business in May 2016.

Our U.S. Mortgage Insurance segment increased \$58 million mainly attributable to higher average flow mortgage insurance in-force, partially offset by higher ceded reinsurance premiums in 2016. 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 \$15 million primarily from the seasoning of our larger, more recent in-force blocks of business. The year ended December 31, 2016 included a decrease of \$25 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.

Corporate and Other activities increased \$88 million. In 2016, we recorded 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 2015 included losses from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

Our Australia Mortgage Insurance segment increased \$3 million due to non-functional currency transactions attributable to changes in foreign exchange rates on remeasurement and repayment of intercompany loans that did not recur.

Our Runoff segment decreased \$20 million mainly attributable to lower account values in our variable annuity products in 2016.

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

Our U.S. Life Insurance segment increased \$130 million. Our long-term care insurance business increased \$565 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

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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 Liability for policy and contract claims* for additional information). The increase was also attributable to aging and growth of the in-force block, higher severity on new claims and \$50 million of net unfavorable adjustments, which included refinements to the calculations of reserves in 2016. These increases were partially offset by reduced benefits of \$85 million in 2016 related to in-force rate actions approved and implemented. Our life insurance business decreased \$380 million principally related to higher ceded reinsurance in 2016. 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 a higher unfavorable unlocking in our universal and term universal life insurance products of \$21 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see *Critical Accounting Estimates Policyholder account balances* for additional information). Our fixed annuities business decreased \$55 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 2016. The decrease was also attributable to lower sales of our life-contingent products and lower interest credited in 2016. These decreases were partially offset by an increase in reserves of \$24 million related to loss recognition testing in our fixed immediate annuity products primarily driven by the low interest rate environment (see *Critical Accounting Estimates Future policy benefits* for additional information).

Our Australia Mortgage Insurance segment increased \$32 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 2016. In addition, 2015 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 third quarter of 2015 that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. The year ended December 31, 2016 included a decrease of \$3 million attributable to changes in foreign exchange rates.

Our Canada Mortgage Insurance segment increased \$8 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, partially offset by decreases in new delinquencies, net of cures, in other regions that experienced strong or improving economic conditions in 2016. The year ended December 31, 2016 included a decrease of \$6 million attributable to changes in foreign exchange rates.

Our U.S. Mortgage Insurance segment decreased \$62 million in 2016 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.

Corporate and Other activities decreased \$10 million largely related to the sale of our European mortgage insurance business in May 2016.

*Interest credited.* Interest credited represents interest credited on behalf of policyholder and contractholder general account balances.

Our U.S. Life Insurance segment decreased \$31 million. Our fixed annuities business decreased \$22 million largely driven by a decline in average account values and lower crediting rates in 2016. Our life insurance business decreased \$9 million predominantly from lower crediting rates in our universal life insurance products in 2016.

Our Runoff segment increased \$7 million largely related to higher cash values in our corporate-owned life insurance products in 2016.

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*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.

Our U.S. Life Insurance segment decreased \$36 million. Our life insurance business decreased \$44 million primarily related to lower operating expenses attributable to a decline in sales, partially offset by \$7 million of higher restructuring charges in 2016. Our long-term care insurance business decreased \$38 million predominantly from lower sales and marketing costs in 2016. Our fixed annuities business increased \$46 million largely attributable to a \$55 million payment in connection with the recapture of certain life-contingent products by a third party, partially offset by lower operating expenses driven by a decline in sales in 2016.

Corporate and Other activities decreased \$13 million mainly driven by the \$140 million loss on the sale of our mortgage insurance business in Europe recorded in the fourth quarter of 2015, partially offset 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 2016. 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 was also partially offset by an additional loss of \$9 million related to the sale of our mortgage insurance business in Europe in 2016.

Our Runoff segment decreased \$8 million largely related to lower commissions in 2016 as a result of the runoff of our variable annuity products.

Our U.S. Mortgage Insurance segment increased \$12 million primarily from higher production costs in 2016. 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 \$11 million mainly driven by higher stock-based compensation expense from an increase in Genworth Canada's share price in 2016 compared to a decrease in Genworth Canada's share price in 2015. The year ended December 31, 2016 included a decrease of \$3 million attributable to changes in foreign exchange rates.

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

Our U.S. Life Insurance segment decreased \$469 million. Our life insurance business decreased \$480 million principally from a DAC impairment of \$455 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of a life block transaction that was finalized



in the first quarter of 2016. The decrease was also attributable to a lower unfavorable unlocking in our universal and term universal life insurance products of \$24 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates Deferred acquisition costs/Present value of future profits for additional information). Our fixed annuities business increased \$7 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 2016 (see Critical Accounting Estimates Deferred acquisition costs for additional information). This increase was partially offset by a higher favorable unlocking of \$7 million in 2016 driven by changes in lapse assumptions.

Our Australia Mortgage Insurance segment decreased \$4 million mainly driven by lower software amortization in 2016.

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Our Canada Mortgage Insurance segment increased \$3 million primarily from higher DAC amortization related to the larger, more recent in-force blocks of business in 2016.

*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 \$54 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 2016.

Corporate and Other activities decreased \$28 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 increased to 111.9% for the year ended December 31, 2016 from 58.0% for the year ended December 31, 2015. The increase in the effective tax rate was largely attributable to a valuation allowance of \$258 million recorded on deferred tax assets in 2016. 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 proposed 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 was also related to true ups on international income in 2016. These increases were partially offset by a tax benefit in 2016 attributable to the reversal of a deferred tax valuation allowance on a specific capital loss and the proportion of lower taxed foreign income in relation to pre-tax loss in 2016 compared to 2015.

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

## ***2015 compared to 2014***

### ***Premiums***

Our Canada Mortgage Insurance segment decreased \$49 million driven by a \$69 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of foreign exchange, our Canada Mortgage Insurance segment increased primarily from the seasoning of our larger in-force blocks of business in 2015.

Our Australia Mortgage Insurance segment decreased \$49 million driven by a \$71 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of foreign exchange, our Australia Mortgage Insurance segment increased primarily as a result of the seasoning of our in-force blocks

of business, an adjustment of \$8 million in the third quarter of 2015 relating to refinements to premium recognition factors and higher premiums resulting from policy cancellations and refunds in 2015. These increases were partially offset by a decrease in premiums from lower flow volume and higher ceded reinsurance premiums in 2015.

Our U.S. Life Insurance segment decreased \$41 million. Our fixed annuities business decreased \$90 million principally from lower sales of our life-contingent products in 2015. Our life insurance business decreased \$52 million primarily related to higher ceded reinsurance, lapse experience and lower production in 2015. Our long-term care insurance business increased \$101 million largely from \$96 million of higher premiums in 2015 from in-force rate actions approved and implemented.

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Our U.S. Mortgage Insurance segment increased \$24 million mainly attributable to higher average flow mortgage insurance in-force, partially offset by higher ceded reinsurance premiums and an accrual for premium refunds related to policy cancellations in 2015.

*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*

Our Runoff segment decreased \$20 million mainly attributable to lower average account values in our variable annuity products in 2015.

Corporate and Other activities decreased \$11 million mainly as a result of losses in 2015 from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

Our U.S. Life Insurance segment increased \$14 million predominantly from our life insurance business related to our universal life insurance products driven by a \$12 million favorable impact associated with the completion of our annual review of assumptions in the fourth quarter of 2015. The increase was also attributable to higher income from certain older universal life insurance in-force policies. These increases were partially offset by lower production, a decrease in our term universal and universal life insurance in-force blocks and higher terminations in our term universal life insurance product in 2015.

Our Australia Mortgage Insurance segment increased \$13 million primarily due to higher losses in 2014 on non-functional currency transactions attributable to changes in foreign exchange rates on remeasurement and partial payments of intercompany loans in 2014 that did not recur.

*Benefits and other changes in policy reserves*

Our U.S. Life Insurance segment decreased \$1,128 million. Our long-term care insurance business decreased \$1,089 million largely related to our annual loss recognition testing in the fourth quarter of 2014 that resulted in an increase of \$729 million of reserves and the completion of a comprehensive review of our claim reserves in the third quarter of 2014 that resulted in an increase in claim reserves of \$531 million, net of reinsurance. These decreases were partially offset by aging and growth of the in-force block, higher severity and frequency on new claims and incremental reserves of \$13 million recorded in connection with an accrual for profits followed by losses in 2015. Our fixed annuities business decreased \$103 million predominantly attributable to lower sales of our life-contingent products and lower interest credited in 2015. Our life

insurance business increased \$64 million primarily related to our universal and term universal life insurance products largely from the completion of our annual review of assumptions in the fourth quarter of 2015 that resulted in an increase in reserves of \$187 million. The increase was also attributable to unfavorable mortality in our term universal life insurance product and a favorable unlocking of \$23 million in our term universal and universal life insurance products in 2014. These increases were partially offset by our term life insurance products principally from a \$49 million unfavorable correction related to reserves on a reinsurance transaction recorded in the fourth quarter of 2014 and the recapture of a reinsurance agreement in 2014 and favorable mortality and higher ceded reinsurance in 2015.

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Our U.S. Mortgage Insurance segment decreased \$135 million driven by an aggregate increase in our claim reserves of \$53 million in 2014 in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities as well as a net reserve strengthening of \$17 million that did not recur. The decrease was also related to a continued decline in new delinquencies in 2015 primarily in our 2005 through 2008 book years. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in 2015.

*Interest credited*

Our U.S. Life Insurance segment decreased \$22 million mainly related to our fixed annuities business driven by lower crediting rates and a decrease in average account values in 2015.

Our Runoff segment increased \$5 million largely related to higher loan cash values in our corporate-owned life insurance products in 2015.

*Acquisition and operating expenses, net of deferrals*

Corporate and Other activities increased \$161 million mainly from an estimated loss on sale related to our mortgage insurance business in Europe of \$140 million recorded in the fourth quarter of 2015 and higher legal accruals and expenses of \$30 million in 2015. These increases were partially offset by lower net expenses after allocations to our operating segments in 2015.

Our U.S. Life Insurance segment increased \$26 million. Our long-term care insurance business increased \$16 million primarily from growth of our in-force block and a restructuring charge, partially offset by lower marketing costs in 2015. Our life insurance business increased \$9 million largely from higher net commissions due to lower deferrals on older in-force blocks and higher variable compensation costs, partially offset by lower production in 2015.

Our U.S. Mortgage Insurance segment increased \$15 million primarily from higher employee compensation expense that resulted from growth in sales, higher premium taxes mainly attributable to higher insurance in-force and a write-off of software in 2015.

Our Canada Mortgage Insurance segment decreased \$24 million mainly driven by lower stock-based compensation expense in 2015. The decrease was also attributable to an early redemption payment of \$6 million in May 2014 related to the redemption of Genworth Canada's senior notes that were scheduled to mature in 2015 that did not recur. The year ended December 31, 2015 also included a decrease of \$7 million attributable to changes in foreign exchange rates.

Our Runoff segment decreased \$8 million largely related to lower commissions in 2015 as a result of the runoff of our variable annuity products.

*Amortization of deferred acquisition costs and intangibles*

Our U.S. Life Insurance segment increased \$527 million. Our life insurance business increased \$560 million largely from a DAC impairment of \$455 million as a result of loss recognition testing of certain term life insurance policies in 2015 as part of a life block transaction. In the fourth quarter of 2015, as part of our annual review of assumptions, we recorded an unfavorable unlocking in our universal life insurance products of \$123 million, which included \$63 million of corrections related to reinsurance inputs. In 2014, we recorded an unfavorable unlocking of \$12 million in our term universal and universal life insurance products. Our fixed annuities business decreased \$20 million largely attributable to higher net investment losses and a decrease in account values in 2015. Our long-term care insurance business decreased \$13 million largely related to the write-off of PVFP in connection with our annual loss recognition testing completed in the fourth quarter of 2014 which also resulted in lower amortization in 2015.

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Our Runoff segment decreased \$10 million related to our variable annuity products principally attributable to lower account values and higher net investment losses, partially offset by less favorable unlockings of \$4 million in 2015.

*Goodwill impairment.* The goodwill impairment charges in 2014 were \$354 million in our long-term care insurance business and \$495 million in our life insurance business.

*Interest expense*

Corporate and Other activities decreased \$16 million mainly driven by the repayment of \$485 million of senior notes in June 2014.

Our U.S. Life Insurance segment increased \$5 million driven by our life insurance business principally from the impact of credit rating downgrades of our life insurance subsidiaries which increased the cost of financing term life insurance reserves, partially offset by a refinancing transaction executed in 2015.

*Provision (benefit) for income taxes.* The effective tax rate increased to 58.0% for the year ended December 31, 2015 from 7.2% for the year ended December 31, 2014. The increase in the effective tax rate was primarily attributable to tax benefits on lower taxed foreign income, changes in uncertain tax positions and tax favored investments in relation to pre-tax results in 2015 as well as non-deductible goodwill impairments in 2014. These increases were partially offset by a valuation allowance established on a specific capital loss, tax expense related to our agreement to sell our European mortgage insurance business and stock-based compensation expense in 2015. The year ended December 31, 2015 included a decrease of \$30 million attributable to changes in foreign exchange rates.

*Net income attributable to noncontrolling interests.* The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, and the sale of additional shares in May 2015, which further reduced our ownership percentage to 52.0% in 2015. The year ended December 31, 2015 included a decrease of \$34 million attributable to changes in foreign exchange rates.

*Use of non-GAAP measures****Reconciliation of net loss to adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders***

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

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the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and restructuring costs are also excluded from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders because, in our opinion, they are not indicative of overall operating trends. Infrequent or unusual non-operating items are also excluded from adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders if, in our opinion, they are not indicative of overall operating trends.

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

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The following table includes a reconciliation of net loss available to Genworth Financial, Inc.'s common stockholders to adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders for the years ended December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net loss available to Genworth Financial, Inc.'s common stockholders	\$ (277)	\$ (615)	\$ (1,244)
Add: net income attributable to noncontrolling interests	210	202	196
<b>Net loss</b>	<b>(67)</b>	<b>(413)</b>	<b>(1,048)</b>
Income (loss) from discontinued operations, net of taxes	(29)	(407)	157
<b>Loss from continuing operations</b>	<b>(38)</b>	<b>(6)</b>	<b>(1,205)</b>
Less: net income attributable to noncontrolling interests	210	202	196
<b>Loss from continuing operations available to Genworth Financial, Inc.'s common stockholders</b>	<b>(248)</b>	<b>(208)</b>	<b>(1,401)</b>
Adjustments to loss from continuing operations available to Genworth Financial, Inc.'s common stockholders:			
Net investment (gains) losses, net <sup>(1)</sup>	(66)	30	8
Goodwill impairment			849
(Gains) losses from sale of businesses	(3)	140	
(Gains) losses on early extinguishment of debt, net <sup>(2)</sup>	(48)	2	4
Losses from life block transactions	9	455	
Expenses related to restructuring	22	8	
Tax impact from potential business portfolio changes			205
Fees associated with bond solicitation	18		
Taxes on adjustments		(172)	(63)
<b>Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders</b>	<b>\$ (316)</b>	<b>\$ 255</b>	<b>\$ (398)</b>

(1) For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(14) million, \$(35) million and \$(14) million, respectively, and adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$20 million, \$(10) million and zero, respectively.

(2) For the years ended December 31, 2016, 2015 and 2014, (gains) losses on the early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of zero, \$1 million and \$2 million, respectively. In 2014, we recorded pre-tax goodwill impairments of \$354 million in our long-term care insurance business and \$495 million in our life insurance business.

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 also

recognized an estimated pre-tax loss of \$140 million in the fourth quarter of 2015 for the planned sale of this business. We also incurred a \$6 million tax benefit in the fourth quarter of 2015 related to the planned sale as well as 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 adjusted operating income (loss) for the periods presented as they related to a gain (loss) on the sale of businesses.

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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 2021 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. In the second quarter of 2014, we paid an early redemption payment of approximately \$3 million, net of the portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada's notes that were scheduled to mature in 2015. These transactions were excluded from adjusted operating income (loss) 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 2016 and 2015, we recorded a pre-tax expense of \$22 million and \$8 million, respectively, related to restructuring costs as part of an expense reduction plan as the company evaluates and appropriately sizes its organizational needs and expenses.

There were no infrequent or unusual items excluded from adjusted operating income (loss) during the periods presented other than the following items. We incurred fees during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of \$18 million for broker, advisor and investment banking fees. There was \$205 million net tax impact in the fourth quarter of 2014 from potential business portfolio changes. We recognized a tax charge of \$174 million in the fourth quarter of 2014 associated with our Australian mortgage insurance business as we could no longer assert our intent to permanently reinvest earnings in that business. In addition, in connection with our plans to sell our lifestyle protection insurance business, we made a change to the permanent reinvestment assertion of one of its legal entities recognizing tax expense of \$31 million in the fourth quarter of 2014.

**Table of Contents*****Earnings (loss) per share***

The following table provides basic and diluted earnings (loss) per common share for the years ended December 31:

<b>(Amounts in millions, except per share amounts)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Loss from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	\$ (0.50)	\$ (0.42)	\$ (2.82)
Diluted	\$ (0.50)	\$ (0.42)	\$ (2.82)
Net loss available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	\$ (0.56)	\$ (1.24)	\$ (2.51)
Diluted	\$ (0.56)	\$ (1.24)	\$ (2.51)
Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders per common share:			
Basic	\$ (0.63)	\$ 0.51	\$ (0.80)
Diluted	\$ (0.63)	\$ 0.51	\$ (0.80)
Weighted-average common shares outstanding:			
Basic	498.3	497.4	496.4
Diluted <sup>(1)</sup>	498.3	497.4	496.4

<sup>(1)</sup> 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 years ended December 31, 2016, 2015 and 2014, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the years ended December 31, 2016, 2015 and 2014, as the inclusion of shares for stock options, RSUs and SARs of 2.0 million, 1.6 million and 5.6 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 years ended December 31, 2016, 2015 and 2014, dilutive potential weighted-average common shares outstanding would have been 500.3 million, 499.0 million and 502.0 million, respectively. Since we had adjusted operating income available to Genworth Financial, Inc. s common stockholders for the year ended December 31, 2015, we used 499.0 million diluted weighted-average common shares outstanding in the calculation of diluted adjusted operating income available to Genworth Financial, Inc. s common stockholders per common share.

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

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

Our chief operating decision maker evaluates segment performance and allocates resources on the basis of adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders. See note 19 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for a reconciliation of net loss available to Genworth Financial, Inc.'s common stockholders to adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders of our segments and Corporate and Other activities.

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.

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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 and life insurance businesses is a measure of the aggregate face value of outstanding insurance policies as of the respective reporting date. For risk in-force in our mortgage insurance businesses, 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. Risk in-force for our U.S. mortgage insurance business is our obligation that is limited under contractual terms to the amounts less than 100% of the mortgage loan value. Effective risk in-force has been calculated by applying to insurance in-force a factor of 35% that represents our highest expected average per-claim payment for any one underwriting year over the life of our 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 adjusted 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.

**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; the effect of 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 and the U.S. government, including the FHA, the FHFA and the U.S. Congress, which

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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 in 2016, primarily due to a strong purchase originations market and a modest increase in refinance originations. Refinance originations increased modestly from 2015 as mortgage interest rates declined further during the second half of 2016. Our flow persistency was 77% in 2016 compared to 80% in 2015, in part due to the modest increase in refinance originations. Our U.S. mortgage insurance estimated market share for 2016 increased compared to 2015. However, our estimated market share has declined modestly since the first 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 35% in 2016 compared to 2015 and increased 42% in the fourth quarter of 2016 compared to the fourth quarter of 2015 due to larger purchase and refinance originations markets. 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 second half 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 for purchase transactions. This was partially offset by a reduction in the percentage of 95% loan-to-value new insurance written especially for refinance transactions. The percentage of single premium new insurance written decreased in the second half of 2016, compared to the first half of 2016 and 2015, reflecting our selective participation in this market. Future volumes of these products will vary depending in part on our evaluation of their risk return profile. We have observed changes in competitor pricing protocols as well as continued competitive pricing with monthly premium borrower paid mortgage insurance during the second half 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 last three quarters of 2016.

Our loss ratio was 24% for the year ended December 31, 2016 compared to 37% for the year ended December 31, 2015. The decline in loss ratio was primarily attributable to the decline in new delinquencies. Additionally, 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 year ended December 31, 2016, by two points. New delinquencies decreased in 2016 compared to 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 2016 continued to come from our 2005 through 2008 book years, which were negatively impacted by economic and housing market trends. New delinquencies decreased modestly during the fourth quarter of 2016 compared to the third quarter of 2016 aligned with seasonal historical trends. Foreclosure starts and the number of paid claims decreased in 2016 as compared to 2015. Additionally, we have seen a reduction in loans that have been subject to a modification or workout in 2016 compared to 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 December 31, 2016, GMICO's risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the NCDOL, GMICO's domestic insurance regulator, was approximately 14.5:1, compared with a risk-to-capital ratio of approximately 16.4:1 as of December 31, 2015.

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This risk-to-capital ratio remains below the NCDOT's maximum risk-to-capital ratio of 25:1. GMICO's ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, the amount of policy lapses, changes in the value of affiliated assets and the amount of additional capital that is generated within the business or capital support (if any) that we provide.

Effective December 31, 2015, each GSE adopted revised PMIERS which set forth operational and financial requirements that mortgage insurers must meet in order to remain eligible. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERS. As of December 31, 2016 and 2015, our U.S. mortgage insurance business met the PMIERS financial and operational requirements. As of December 31, 2016, we estimate our U.S. mortgage insurance business had available assets of approximately 115% of the required assets under PMIERS compared to approximately 109% as of December 31, 2015. As of December 31, 2016 and 2015, the PMIERS sufficiency ratios were in excess of \$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 \$530 million of PMIERS capital credit as of December 31, 2016.

As of December 31, 2016, loans modified through the Home Affordable Refinance Program (HARP) accounted for approximately \$14.9 billion of insurance in-force, with approximately \$14.0 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 September 30, 2017. 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.

**Table of Contents****Segment results of operations**

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Revenues:</b>							
Premiums	\$ 660	\$ 602	\$ 578	\$ 58	10%	\$ 24	4%
Net investment income	63	58	59	5	9%	(1)	(2)%
Net investment gains (losses)	(1)	1		(2)	(200)%	1	NM <sup>(1)</sup>
Policy fees and other income	4	4	2		%	2	100%
<b>Total revenues</b>	<b>726</b>	<b>665</b>	<b>639</b>	<b>61</b>	<b>9%</b>	<b>26</b>	<b>4%</b>
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	160	222	357	(62)	(28)%	(135)	(38)%
Acquisition and operating expenses, net of deferrals	167	155	140	12	8%	15	11%
Amortization of deferred acquisition costs and intangibles	12	10	7	2	20%	3	43%
<b>Total benefits and expenses</b>	<b>339</b>	<b>387</b>	<b>504</b>	<b>(48)</b>	<b>(12)%</b>	<b>(117)</b>	<b>(23)%</b>
<b>Income from continuing operations before income taxes</b>							
Income from continuing operations before income taxes	387	278	135	109	39%	143	106%
Provision for income taxes	138	99	44	39	39%	55	125%
<b>Income from continuing operations</b>	<b>249</b>	<b>179</b>	<b>91</b>	<b>70</b>	<b>39%</b>	<b>88</b>	<b>97%</b>
<b>Adjustments to income from continuing operations:</b>							
Net investment (gains) losses	1	(1)		2	200%	(1)	NM <sup>(1)</sup>
Expenses related to restructuring	1			1	NM <sup>(1)</sup>		%
Taxes on adjustments	(1)	1		(2)	(200)%	1	NM <sup>(1)</sup>
<b>Adjusted operating income available to Genworth Financial, Inc. s common stockholders</b>	<b>\$ 250</b>	<b>\$ 179</b>	<b>\$ 91</b>	<b>\$ 71</b>	<b>40%</b>	<b>\$ 88</b>	<b>97%</b>

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

**2016 compared to 2015**

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

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased in 2016 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 2016. 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 due to higher average invested assets in 2016, partially offset by lower intercompany dividends received as a result of the intercompany sale of the U.S. mortgage insurance s ownership interest in affiliated preferred securities in 2015.

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### ***Benefits and expenses***

Benefits and other changes in policy reserves decreased in 2016 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 2016. 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 year ended December 31, 2016 from 35.6% for the year ended December 31, 2015.

### ***2015 compared to 2014***

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

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased in 2015 mainly attributable to a continued decline in new delinquencies and higher premiums, partially offset a lower benefit from net cures and aging of existing delinquencies in 2015. Adjusted operating income available to Genworth Financial, Inc. s common stockholders in 2014 also included an aggregate increase in our claim reserves of \$34 million in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities as well as a net reserve strengthening of \$11 million that did not recur.

#### ***Revenues***

Premiums increased mainly attributable to higher average flow mortgage insurance in-force, partially offset by higher ceded reinsurance premiums and an accrual for premium refunds related to policy cancellations in 2015.

Net investment income decreased marginally primarily from lower intercompany dividends received of approximately \$8 million as a result of the intercompany sale of U.S. mortgage insurance s ownership interest in affiliated preferred securities in July 2015. This decrease was mostly offset by higher reinvestment yields on higher average invested assets in 2015.

### ***Benefits and expenses***

Benefits and other changes in policy reserves decreased due to lower net paid claims of \$104 million and a decrease in change in reserves of \$31 million. The decrease was primarily driven by an aggregate increase in our claim reserves of \$53 million in 2014 in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities as well as a net reserve strengthening of \$17 million that did not recur. The decrease was also related to a continued decline in new delinquencies in 2015 primarily in our 2005 through 2008 book years. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in 2015.

Acquisition and operating expenses, net of deferrals, increased primarily from higher employee compensation expense that resulted from growth in sales, higher premium taxes mainly attributable to higher insurance in-force and a write-off of software in 2015.

*Provision for income taxes.* The effective tax rate increased to 35.6% for the year ended December 31, 2015 from 32.6% for the year ended December 31, 2014. The increase in the effective tax rate was primarily attributable to changes in tax favored investment benefits and favorable true ups in 2014, partially offset by changes in state taxes and the loss of foreign tax credits in 2014.



**Table of Contents*****U.S. Mortgage Insurance selected operating performance measures***

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

(Amounts in millions)	As of or for the years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
Primary insurance in-force <sup>(1)</sup>	\$ 137,500	\$ 122,400	\$ 114,400	\$ 15,100	12%	\$ 8,000	7%
Risk in-force <sup>(2)</sup>	33,300	29,600	28,700	3,700	13%	900	3%
New insurance written	42,700	31,600	24,400	11,100	35%	7,200	30%
Net premiums written	744	682	628	62	9%	54	9%

(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 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. Risk in-force for 2015 has been re-presented to reflect these modified metrics.

***2016 compared to 2015******Primary insurance in-force and risk in-force***

Primary insurance in-force increased primarily as a result of the increase of \$15.5 billion in flow insurance in-force, which increased from \$119.8 billion as of December 31, 2015 to \$135.3 billion as of December 31, 2016 as a result of new insurance written in 2016. The increase in flow insurance in-force was partially offset by a decline of \$0.4 billion in bulk insurance in-force, which decreased from \$2.6 billion as of December 31, 2015 to \$2.2 billion as of December 31, 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 80% for the years ended December 31, 2016 and 2015, respectively.

***New insurance written***

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.

***Net premiums written***

Net premiums written increased primarily from higher average flow insurance in-force in 2016.

***2015 compared to 2014******Primary insurance in-force and risk in-force***

Primary insurance in-force increased as the result of an increase in flow mortgage insurance in-force, which increased from \$110.8 billion as of December 31, 2014 to \$119.8 billion as of December 31, 2015 as a result of new insurance written, partially offset by lapses in 2015. This increase was further offset by cancellations and lapses in bulk mortgage insurance in-force, which decreased from \$3.6 billion as of December 31, 2014 to \$2.6 billion as of December 31, 2015. In addition, risk in-force increased primarily as a result of higher flow new insurance written. Flow persistency was 80% and 82% for the years ended December 31, 2015 and 2014, respectively.

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

New insurance written increased primarily driven by an increase in the mortgage insurance originations market. Mortgage refinance originations increased as a result of lower interest rates and mortgage purchase originations increased as a result of improved macroeconomic conditions, including interest rates, in 2015. We also had a higher concentration of single premium lender paid business reflecting our decision to selectively participate in the market in 2015.

*Net premiums written*

Net premiums written increased due to a higher volume of single premium lender paid business in 2015 reflecting our decision to selectively participate in the market. The increase was also from higher flow insurance in-force.

*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:

	Years ended December 31,			Increase (decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Loss ratio	24%	37%	62%	(13)%	(25)%
Expense ratio (net earned premiums)	27%	27%	25%	%	2%
Expense ratio (net premiums written)	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.

***2016 compared to 2015***

The loss ratio decreased from a continued decline in new delinquencies primarily in our 2005 through 2008 book years and higher net earned premiums in 2016. The decrease in 2016 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 December 31, 2016 by two points.

The expense ratios remained unchanged from higher production costs, completely offset by higher net premiums in 2016.

***2015 compared to 2014***

The loss ratio decreased primarily driven by an aggregate increase in our claim reserves of \$53 million in 2014 in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities as well as a net reserve strengthening of \$17 million that did not recur. The decrease was also related to a continued decline in new delinquencies primarily in our 2005 through 2008 book years, in addition to higher net earned premiums attributable to higher average flow mortgage

insurance in-force, partially offset by higher ceded reinsurance premiums and an accrual for premium refunds related to policy cancellations in 2015. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in 2015. The charges of \$53 million increased the loss ratio by nine percentage points in 2014.

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The expense ratio (net premiums written) increased from higher employee compensation expense that resulted from growth in sales, higher premium taxes mainly attributable to higher insurance in-force and a write-off of software, partially offset by higher net premiums written in 2015.

*U.S. mortgage insurance loan portfolio*

The following table sets forth selected financial information regarding our U.S. primary mortgage insurance loan portfolio as of December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Primary risk in-force lender concentration (by original applicant)	\$ 33,169	\$ 29,468	\$ 28,514
Top 10 lenders	10,478	10,913	12,306
Top 20 lenders	13,737	13,500	14,322
Loan-to-value ratio:			
95.01% and above	\$ 5,677	\$ 5,879	\$ 6,763
90.01% to 95.00%	16,738	13,828	12,008
80.01% to 90.00%	10,495	9,458	9,383
80.00% and below	259	303	360
<b>Total</b>	<b>\$ 33,169</b>	<b>\$ 29,468</b>	<b>\$ 28,514</b>
Loan grade:			
Prime	\$ 32,357	\$ 28,470	\$ 27,262
A minus and sub-prime	812	998	1,252
<b>Total</b>	<b>\$ 33,169</b>	<b>\$ 29,468</b>	<b>\$ 28,514</b>

**Table of Contents***Delinquent loans and claims*

Our delinquency management process begins with notification by the loan servicer of a delinquency on an insured loan. Delinquency is defined in our master policies as the borrower's failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, the master policies require an insured to notify us of a delinquency no later than 10 days after the borrower has been in default by three monthly payments. We generally consider a loan to be delinquent and establish required reserves if the borrower has failed to make a scheduled mortgage payment. Borrowers default for a variety of reasons, including a reduction of income, unemployment, divorce, illness, inability to manage credit and interest rate levels. Borrowers may cure delinquencies by making all of the delinquent loan payments, agreeing to a loan modification, or by selling the property in full satisfaction of all amounts due under the mortgage. In most cases, delinquencies that are not cured result in a claim under our policy. 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 December 31:

	2016	2015	2014
<b>Primary insurance:</b>			
Insured loans in-force	699,841	651,668	630,852
Delinquent loans	25,709	31,663	39,786
Percentage of delinquent loans (delinquency rate)	3.67%	4.86%	6.31%
<b>Flow loan in-force</b>			
Flow loan in-force	678,168	627,349	599,206
Flow delinquent loans	24,631	30,416	38,177
Percentage of flow delinquent loans (delinquency rate)	3.63%	4.85%	6.37%
<b>Bulk loans in-force</b>			
Bulk loans in-force	21,673	24,319	31,646
Bulk delinquent loans <sup>(1)</sup>	1,078	1,247	1,609
Percentage of bulk delinquent loans (delinquency rate)	4.97%	5.13%	5.08%
<b>A minus and sub-prime loans in-force</b>			
A minus and sub-prime loans in-force	23,063	28,332	33,529
A minus and sub-prime loans delinquent loans	5,252	6,448	7,851
Percentage of A minus and sub-prime delinquent loans (delinquency rate)	22.77%	22.76%	23.42%
<b>Pool insurance:</b>			
Insured loans in-force	5,742	6,620	8,282
Delinquent loans	325	386	521
Percentage of delinquent loans (delinquency rate)	5.66%	5.83%	6.29%

<sup>(1)</sup> Included loans where we were in a secondary loss position for which no reserve was established due to an existing deductible. Excluding these loans, bulk delinquent loans were 756, 889 and 1,109 as of December 31, 2016, 2015 and 2014, respectively.

Delinquency and foreclosure levels that developed principally in our 2005 through 2008 book years have declined as the United States has continued to experience improvement in its residential real estate market. We also have seen a further decline in new delinquencies and lower foreclosure starts in 2016.

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The following tables set forth flow delinquencies, direct case reserves and risk in-force by aged missed payment status in our U.S. mortgage insurance portfolio as of December 31:

(Dollar amounts in millions)	Delinquencies	2016		
		Direct case reserves <sup>(1)</sup>	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	9,355	\$ 49	\$ 382	13%
4 - 11 payments	6,364	147	268	55%
12 payments or more	8,912	383	434	88%
<b>Total</b>	<b>24,631</b>	<b>\$ 579</b>	<b>\$ 1,084</b>	<b>53%</b>

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

(Dollar amounts in millions)	Delinquencies	2015		
		Direct case reserves <sup>(1)</sup>	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%
<b>Total</b>	<b>30,416</b>	<b>\$ 775</b>	<b>\$ 1,350</b>	<b>57%</b>

(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 December 31,	Percent of total reserves as of December 31, 2016	Delinquency rate as of December 31,		
		2016	2015	2014

	2016		(1)		
<b>By Region:</b>					
Southeast <sup>(2)</sup>	19%	21%	4.28%	5.78%	7.89%
South Central <sup>(3)</sup>	15	9	3.20%	3.81%	4.50%
Pacific <sup>(4)</sup>	14	8	2.02%	3.01%	4.51%
Northeast <sup>(5)</sup>	13	34	6.72%	8.91%	10.83%
North Central <sup>(6)</sup>	12	9	3.00%	3.89%	5.35%
Great Lakes <sup>(7)</sup>	11	6	2.70%	3.50%	4.48%
New England <sup>(8)</sup>	6	6	3.62%	4.71%	6.34%
Mid-Atlantic <sup>(9)</sup>	6	5	3.80%	5.05%	6.32%
Plains <sup>(10)</sup>	4	2	2.94%	3.70%	4.39%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>3.67%</b>	<b>4.86%</b>	<b>6.31%</b>

(1) Total reserves were \$635 million as of December 31, 2016.

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

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

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

(5) New Jersey, New York and Pennsylvania.

(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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	<b>Percent of primary risk in-force as of December 31, 2016</b>	<b>Percent of total reserves as of December 31, 2016<sup>(1)</sup></b>	<b>Delinquency rate as of December 31,</b>		
			<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>By State:</b>					
California	8%	3%	1.56%	2.26%	3.09%
Texas	7%	3%	3.33%	3.90%	4.55%
Florida	6%	12%	4.89%	7.71%	12.61%
New York	6%	17%	6.88%	9.07%	10.88%
Illinois	6%	5%	3.45%	4.70%	6.76%
Pennsylvania	4%	4%	4.70%	6.20%	7.78%
Michigan	4%	1%	1.79%	2.56%	3.38%
Washington	4%	2%	1.79%	2.92%	4.88%
Ohio	4%	3%	3.30%	4.14%	5.06%
North Carolina	4%	2%	3.65%	4.75%	5.59%

<sup>(1)</sup> Total reserves were \$635 million as of December 31, 2016.

The frequency of delinquencies may not correlate directly with the number of claims received because the rate at which delinquencies are cured is influenced by borrowers' financial resources and circumstances and regional economic differences. Whether an uncured delinquency leads to a claim principally depends upon the borrower's equity at the time of delinquency and the borrower's or the insured's ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage loan. When we receive notice of a delinquency, we use a proprietary model to determine whether a delinquent loan is a candidate for workout. When the model identifies such a candidate, our loan workout specialists prioritize cases for loss mitigation based upon the likelihood that the loan will result in a claim. Loss mitigation actions include loan modification, extension of credit to bring a loan current, foreclosure forbearance, pre-foreclosure sale and deed-in-lieu. These loss mitigation efforts often are an effective way to reduce our claim exposure and ultimate payouts.

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 December 31, 2016:

<b>(Amounts in millions)</b>	<b>Average rate<sup>(1)</sup></b>	<b>Percent of total reserves<sup>(2)</sup></b>	<b>Primary insurance in-force</b>	<b>Percent of total</b>	<b>Primary risk in-force</b>	<b>Percent of total</b>
<b>Policy Year</b>						
2004 and prior	6.02%	11.3%	\$ 2,957	2.2%	\$ 580	1.7%
2005	5.62%	10.8	2,688	2.0	650	2.0
2006	5.77%	16.5	4,729	3.4	1,113	3.3
2007	5.70%	34.7	12,371	9.0	2,845	8.6
2008	5.25%	16.5	10,286	7.5	2,407	7.3
2009	4.95%	0.8	1,201	0.9	258	0.8
2010	4.68%	0.7	1,577	1.1	360	1.1
2011	4.53%	0.7	2,188	1.6	522	1.6

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2012	3.84%	0.8	5,823	4.2	1,429	4.3
2013	4.03%	1.6	10,422	7.6	2,555	7.7
2014	4.41%	2.7	15,163	11.0	3,717	11.2
2015	4.11%	2.3	26,725	19.4	6,574	19.8
2016	3.86%	0.6	41,374	30.1	10,159	30.6
<b>Total portfolio</b>	<b>4.53%</b>	<b>100.0%</b>	<b>\$ 137,504</b>	<b>100.0%</b>	<b>\$ 33,169</b>	<b>100.0%</b>

(1) Average rate represents average annual mortgage interest rate.

(2) Total reserves were \$635 million as of December 31, 2016.

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Typically, claim activity is not spread evenly throughout the coverage period of a primary insurance book of business. Based upon our experience, the majority of claims on primary U.S. mortgage insurance loans occur in the third through seventh years after loan origination. Historically, few claims were paid during the first two years after loan origination. However, the pattern of claims frequency can be affected by factors such as deteriorating economic conditions that can result in increasing claims which was the case with our 2005 through 2008 book years, but we expect the pattern of claims frequency for our newer books in and after 2009 to return to that of a more traditional claim trend level. Primary insurance written for the period from January 1, 2009 through December 31, 2013 represented 15% of our primary insurance in-force as of December 31, 2016. Historically, traditional primary loans reach their expected peak claim level within a three- to seven-year period. Therefore, the primary loans written during the five-year period ended December 31, 2013, are now within or past their peak claim period. Our A minus and sub-prime loans continue to have earlier incidences of default than our prime loans. Based upon FICO at loan closing, A minus and sub-prime loans represented 2% and 3% of our primary risk in-force as of December 31, 2016 and 2015, respectively.

Primary mortgage insurance claims paid, including loss adjustment expenses, for the year ended December 31, 2016 were \$368 million, compared to \$531 million and \$634 million for the years ended December 31, 2015 and 2014, respectively. Pool insurance claims paid were \$2 million, \$3 million and \$5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The ratio of the claim paid to the current risk in-force for a loan is referred to as claim severity. The current risk in-force is equal to the unpaid principal amount multiplied by the coverage percentage. The main determinants of claim severity are the age of the mortgage loan, the value of the underlying property, accrued interest on the loan, expenses advanced by the insured and foreclosure expenses. These amounts depend partly upon the time required to complete foreclosure, which varies depending upon state laws. Pre-foreclosure sales, acquisitions and other early workout and claim administration actions help to reduce overall claim severity. Our average primary flow mortgage insurance claim severity was 118%, 114% and 111% for the years ended December 31, 2016, 2015 and 2014, respectively. The average claim severity for the year ended December 31, 2015 did not include the effects of the agreement on non-performing loans and the non-recurring payments to extinguish the risk on prior paid claims pursuant to a previously disclosed servicer settlement reached in 2014.

**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 2016, the U.S. dollar strengthened against the Canadian dollar, which negatively impacted the results of our mortgage insurance business in Canada as reported in U.S. dollars. Any future movement in foreign exchange rates could impact future results.

We closely monitor economic conditions due to the impact adverse changes in economic conditions can have on our results. The Canadian gross domestic product is expected to have experienced moderate growth in 2016, although slightly higher than in 2015, mostly attributable to increased demand for Canadian exports and services consumption, offset by weak business investment. The Bank of Canada recently adjusted its full year 2016 gross domestic product forecast to 1.3%, up from 1.1% in the prior quarter.

The overnight interest rate in Canada remained flat at 0.50% throughout 2016. Canada's unemployment rate decreased to 6.9% at the end of 2016 compared to 7.1% at the end of 2015 due to job creation outpacing an increase in workforce participation. Home sales in Canada increased approximately 6% in 2016 compared to 2015, largely due to strong sales activity in British Columbia and Ontario, partially offset by continued weakness

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in oil-producing regions. The national home price increased by approximately 12% in 2016 compared to 2015 driven by strong demand and short supply in select urban markets, offset by weakness in oil-producing regions.

Our mortgage insurance business in Canada experienced higher losses in 2016 compared to 2015 primarily due to an increase in new delinquencies, net of cures, and a higher average reserve per delinquency, resulting from economic pressure in oil-producing regions. This was partially offset by decreases in new delinquencies, net of cures, in other regions that experienced strong or improving economic conditions. Our loss ratio in Canada was 22% for the year ended December 31, 2016. We expect the loss ratio in Canada to be higher in 2017 if economic volatility continues to have a negative impact.

In 2016, flow new insurance written volumes decreased in our mortgage insurance business in Canada compared to 2015 primarily due to targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in 2016. However, earned premiums were higher in 2016 than in 2015 from larger size of our more recent blocks of business and recent price increases.

Bulk new insurance written levels were higher in 2016 compared to 2015 due to variations in customer demand primarily associated with the timing of new regulations which restrict the use of bulk mortgage insurance. New insurance written from bulk mortgage insurance varies from period to period based on a number of factors, including the amount 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 CMHC 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 prior to the new regulations effective date. We anticipate a decrease in demand for bulk new insurance written in 2017 as a result of these new regulations.

On October 3, 2016, the Minister of Finance announced changes intended to reinforce the Canadian housing finance system. These changes primarily included more restrictive qualification guidelines on homebuyers seeking mortgage insurance compared to the prior requirements and new requirements on insured mortgage loans using bulk or other discretionary low loan-to-value mortgage insurance that previously only applied to high loan-to-value insured mortgages. These changes in regulatory requirements will likely cause a decrease in demand for both flow and bulk new insurance written going forward.

Under PRMHIA and the Insurance Companies Act (Canada), our mortgage insurance business in Canada is required to meet a MCT to support its outstanding mortgage insurance in-force. The MCT ratio is calculated based on a methodology prescribed by OSFI. The Department of Finance in Canada had previously established an MCT ratio for our mortgage insurance business in Canada of 175% under PRMHIA.

On December 15, 2016, OSFI released its final capital advisory titled "Capital Requirements for Federally Regulated Mortgage Insurers." The advisory provides a new standard framework for determining the capital requirements for residential mortgage insurance companies. The framework is more risk sensitive and incorporates additional risk attributes, including credit score, remaining amortization and outstanding loan balance. The advisory came into effect on January 1, 2017, replacing OSFI's current advisory, "Interim Capital Requirements for Mortgage Insurance Companies," which had been in effect since January 2015. The advisory includes supplementary capital requirements on new business in areas where home prices are high relative to borrower incomes upon origination.

As a result of higher regulatory capital requirements that came into effect January 1, 2017, our mortgage insurance business in Canada recently announced an increase in premium rates of approximately 20% on flow new business

effective March 17, 2017. Similarly, our mortgage insurance business in Canada has also increased its premium rates for bulk insurance. There will be a one-time increase in bulk insurance volumes in the first quarter of 2017 due to pending bulk applications at the end of 2016 that are expected to close in early 2017.

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Pending the development of this new regulatory capital framework, we had established an operating MCT holding target of 220% in 2014. As of December 31, 2016, our MCT ratio was 245%, which is above the MCT holding target. Under the new regulatory capital framework, the holding target of 220% was recalibrated to the updated OSFI Supervisory MCT Target and PRMHIA requirement of 150%. Based on the new framework our mortgage insurance business in Canada estimates that its MCT ratio as of December 31, 2016 would have been in the range of 158% to 162%. As a result, the business was compliant with the new framework upon its implementation on January 1, 2017.

**Segment results of operations**

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Revenues:</b>							
Premiums	\$ 481	\$ 466	\$ 515	\$ 15	3%	\$ (49)	(10)%
Net investment income	126	130	155	(4)	(3)%	(25)	(16)%
Net investment gains (losses)	37	(32)	(2)	69	NM <sup>(1)</sup>	(30)	NM <sup>(1)</sup>
Policy fees and other income	1		1	1	NM <sup>(1)</sup>	(1)	(100)%
Total revenues	645	564	669	81	14%	(105)	(16)%
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	104	96	102	8	8%	(6)	(6)%
Acquisition and operating expenses, net of deferrals	77	66	90	11	17%	(24)	(27)%
Amortization of deferred acquisition costs and intangibles	39	36	38	3	8%	(2)	(5)%
Interest expense	18	18	21		%	(3)	(14)%
Total benefits and expenses	238	216	251	22	10%	(35)	(14)%
<b>Income from continuing operations before income taxes</b>							
Income from continuing operations before income taxes	407	348	418	59	17%	(70)	(17)%
Provision for income taxes	113	90	111	23	26%	(21)	(19)%
Income from continuing operations	294	258	307	36	14%	(49)	(16)%
Less: income from continuing operations attributable to noncontrolling interests	135	118	140	17	14%	(22)	(16)%
Income from continuing operations available to Genworth Financial, Inc.'s common stockholders	159	140	167	19	14%	(27)	(16)%
Adjustments to income from continuing operations available to Genworth Financial, Inc.'s common stockholders:							

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Net investment (gains) losses, net <sup>(2)</sup>	(21)	19	1	(40)	NM <sup>(1)</sup>	18	NM <sup>(1)</sup>
(Gains) losses on early extinguishment of debt, net <sup>(3)</sup>			4		%	(4)	(100)%
Taxes on adjustments	8	(7)	(2)	15	NM <sup>(1)</sup>	(5)	NM <sup>(1)</sup>
Adjusted operating income available to Genworth Financial, Inc.'s common stockholders	\$ 146	\$ 152	\$ 170	\$ (6)	(4)%	\$ (18)	(11)%

- (1) We define NM as not meaningful for increases or decreases greater than 200%.
- (2) For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$16 million, \$(13) million and \$(1) million, respectively.
- (3) For the year ended December 31, 2014, (gains) losses on early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of \$2 million.



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**Table of Contents*****2016 compared to 2015******Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders decreased driven by a \$9 million decrease attributable to changes in foreign exchange rates in 2016. Excluding the effects of foreign exchange, adjusted operating income available to Genworth Financial, Inc. s common stockholders increased primarily from an increase in premiums, partially offset by an increase in operating expenses and losses in 2016.

***Revenues***

Premiums increased primarily from the seasoning of our larger, more recent in-force blocks of business. The year ended December 31, 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 2016.

Net investment gains in 2016 were primarily related to unrealized gains on interest rate swaps and derivative gains largely from hedging non-functional currency transactions, partially offset by impairments. Net investment losses in 2015 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 year ended December 31, 2016 included a decrease of \$3 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, partially offset by decreases in new delinquencies, net of cures, in other regions that experienced strong or improving economic conditions in 2016. The year ended December 31, 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 2016 compared to a decrease in Genworth Canada s share price in 2015. The year ended December 31, 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 2016. The year ended December 31, 2016 included a decrease of \$2 million attributable to changes in foreign exchange rates.

*Provision for income taxes.* The effective tax rate increased to 27.7% for the year ended December 31, 2016 from 26.0% for the year ended December 31, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income. The year ended December 31, 2016 included a decrease of \$6 million attributable to changes in foreign exchange rates.

***2015 compared to 2014***

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

Adjusted operating income available to Genworth Financial, Inc. s common stockholders decreased driven by a \$25 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of

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foreign exchange, adjusted operating income available to Genworth Financial, Inc.'s common stockholders increased attributable to higher premiums and lower operating expenses and taxes, partially offset by higher losses in 2015.

***Revenues***

Premiums decreased driven by a \$69 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of foreign exchange, premiums increased primarily from the seasoning of our larger in-force blocks of business in 2015.

Net investment income decreased primarily from a \$20 million decrease attributable to changes in foreign exchange rates and lower reinvestment yields in 2015.

Net investment losses increased driven by higher derivative losses largely from hedging non-functional currency investments, partially offset by net gains from the sale of investments and an increase of \$5 million attributable to changes in foreign exchange rates in 2015.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased due to lower net paid claims of \$15 million, partially offset by an increase in change in reserves of \$9 million. The decrease included a \$14 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of foreign exchange, benefits and other changes in policy reserves increased primarily from a higher average reserve per delinquency related to higher severity in certain regions and an increase in the number of new delinquencies, net of cures, in 2015.

Acquisition and operating expenses, net of deferrals, decreased mainly driven by lower stock-based compensation expense in 2015. The decrease was also attributable to an early redemption payment of \$6 million in May 2014 related to the redemption of Genworth Canada's senior notes that were scheduled to mature in 2015 that did not recur. The year ended December 31, 2015 also included a decrease of \$7 million attributable to changes in foreign exchange rates.

*Provision for income taxes.* The effective tax rate decreased to 26.0% for the year ended December 31, 2015 from 26.6% for the year ended December 31, 2014. The decrease in the effective tax rate was primarily attributable to an increase in tax benefits from lower taxed foreign income. The year ended December 31, 2015 included a decrease of \$13 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests was lower primarily driven by an \$18 million decrease attributable to changes in foreign exchange rates.

***Canada Mortgage Insurance selected operating performance measures***

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

<b>As of or for the years ended December 31,</b>	<b>Increase (decrease) and percentage change</b>
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<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2016 vs. 2015</b>		<b>2015 vs. 2014</b>	
Primary insurance in-force	\$ 345,600	\$ 292,600	\$ 306,600	\$ 53,000	18%	\$ (14,000)	(5)%
Risk in-force	\$ 121,000	\$ 102,400	\$ 107,300	\$ 18,600	18%	\$ (4,900)	(5)%
New insurance written	\$ 47,800	\$ 40,400	\$ 38,500	\$ 7,400	18%	\$ 1,900	5%
Net premiums written	\$ 576	\$ 641	\$ 583	\$ (65)	(10)%	\$ 58	10%

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**Table of Contents*****2016 compared to 2015******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 years ended December 31, 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 \$10.1 billion and \$3.5 billion, respectively, attributable to changes in foreign exchange rates.

***New insurance written***

New insurance written increased primarily as a result of higher bulk mortgage insurance activity, partially offset by lower flow new insurance written. Flow new insurance written decreased \$3.9 billion as a result of targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in 2016. Bulk mortgage insurance activity increased \$11.3 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 year ended December 31, 2016 included a decrease of \$2.3 billion attributable to changes in foreign exchange rates.

***Net premiums written***

Most of 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 December 31, 2016, our unearned premium reserves were \$1,595 million, compared to \$1,460 million as of December 31, 2015. Unearned premium reserves were higher as a result of premiums from new business volume in 2016.

Net premiums written decreased primarily from lower flow mortgage insurance volume from targeted underwriting changes in select markets and a smaller flow mortgage insurance market size in 2016, 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 year ended December 31, 2016 included a decrease of \$26 million attributable to changes in foreign exchange rates.

***2015 compared to 2014******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 years ended December 31, 2015 and 2014, this factor was 35%.

Primary insurance in-force and risk in-force decreased as a result of decreases of \$55.9 billion and \$19.6 billion, respectively, attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, primary insurance in-force and risk in-force increased primarily as a result of flow new insurance written and bulk mortgage insurance activity.

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

New insurance written increased driven by higher bulk mortgage insurance activity and higher flow new insurance written from higher market penetration in 2015. The year ended December 31, 2015 included a decrease of \$6,000 million attributable to changes in foreign exchange rates.

*Net premiums written*

Most of 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 December 31, 2015, our unearned premium reserves were \$1,460 million, including a decrease of \$300 million attributable to changes in foreign exchange rates, compared to \$1,548 million as of December 31, 2014. Excluding the effects of foreign exchange, unearned premium reserves were higher as a result of premiums from new business volume.

Net premiums written increased primarily from higher flow volume attributable to higher market penetration, as well as higher bulk mortgage insurance activity from increased customer demand in 2015. In addition, the price increases on high loan-to-value premiums effective May 1, 2014 and June 1, 2015 resulted in higher net premiums written. The year ended December 31, 2015 included a decrease of \$97 million attributable to changes in foreign exchange rates.

*Loss and expense ratios*

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

	Years ended December 31,			Increase (decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Loss ratio	22%	21%	20%	1%	1%
Expense ratio (net earned premiums)	24%	22%	25%	2%	(3)%
Expense ratio (net premiums written)	20%	16%	22%	4%	(6)%

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.

***2016 compared to 2015****Loss ratio*

The loss ratio increased 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, partially offset by decreases in new delinquencies, net of cures, in other regions that experienced strong or improving economic conditions in 2016.

*Expense ratio (net earned premiums)*

The expense ratio (net earned premiums) increased primarily attributable to higher stock-based compensation expense from an increase in Genworth Canada's share price in 2016 compared to a decrease in Genworth Canada's share price in 2015.



**Table of Contents***Expense ratio (net premiums written)*

The expense ratio (net premiums written) increased primarily attributable to higher stock-based compensation expense from an increase in Genworth Canada's share price in 2016 compared to a decrease in Genworth Canada's share price in 2015, as well as lower net premiums written in 2016.

**2015 compared to 2014***Loss ratio*

The loss ratio increased primarily from a higher average reserve per delinquency related to higher severity in certain regions and an increase in the number of new delinquencies, net of cures, mostly offset by higher premiums in 2015.

*Expense ratio (net earned premiums)*

The expense ratio (net earned premiums) decreased primarily attributable to lower stock-based compensation expense in 2015 and an early redemption payment of \$6 million in May 2014 related to the redemption of Genworth Canada's senior notes that were scheduled to mature in 2015 that did not recur, as well as higher premiums in 2015.

*Expense ratio (net premiums written)*

The expense ratio (net premiums written) decreased primarily attributable to lower stock-based compensation expense in 2015 and an early redemption payment of \$6 million in May 2014 related to the redemption of Genworth Canada's senior notes that were scheduled to mature in 2015 that did not recur.

*Canada mortgage insurance loan portfolio*

The following table sets forth selected financial information regarding the loan-to-value ratio of effective risk in-force of our Canada mortgage insurance loan portfolio as of December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
95.01% and above	\$ 39,726	\$ 35,570	\$ 37,991
90.01% to 95.00%	24,366	22,338	24,836
80.01% to 90.00%	14,569	13,630	15,499
80.00% and below	42,289	30,873	28,999
<b>Total</b>	<b>\$ 120,950</b>	<b>\$ 102,411</b>	<b>\$ 107,325</b>

Overall risk in-force increased primarily as a result of flow new insurance written and bulk mortgage insurance activity. Risk in-force in the 80.00% and below category increased primarily as a result of bulk mortgage insurance activity in 2016. The year ended December 31, 2016 included an increase of \$3.5 billion attributable to changes in foreign exchange rates.

**Table of Contents***Delinquent loans and claims*

The claim process in our Canada Mortgage Insurance segment is similar to the process we follow in our U.S. mortgage insurance business. See U.S. Mortgage Insurance Delinquent loans and claims. 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 December 31:

	2016	2015	2014
Primary insured loans in-force	2,029,400	1,835,916	1,673,505
Delinquent loans	2,070	1,829	1,756
Percentage of delinquent loans (delinquency rate)	0.10%	0.10%	0.10%
Flow loan in-force	1,394,067	1,331,773	1,255,050
Flow delinquent loans	1,693	1,550	1,493
Percentage of flow delinquent loans (delinquency rate)	0.12%	0.12%	0.12%
Bulk loans in-force	635,333	504,143	418,455
Bulk delinquent loans	377	279	263
Percentage of bulk delinquent loans (delinquency rate)	0.06%	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.

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 December 31, 2016	Delinquency rate as of December 31,		
		2016	2015	2014
By province and territory:				
Ontario	47%	0.04%	0.05%	0.05%
Alberta	16	0.22%	0.12%	0.10%
British Columbia	15	0.06%	0.08%	0.14%
Quebec	13	0.15%	0.19%	0.19%
Saskatchewan	3	0.28%	0.17%	0.13%
Nova Scotia	2	0.18%	0.18%	0.23%
Manitoba	2	0.07%	0.09%	0.07%
New Brunswick	1	0.19%	0.20%	0.20%
All other	1	0.17%	0.13%	0.12%

Total	100%	0.10%	0.10%	0.10%
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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. Based on the data provided by lenders, the 2016 delinquency rate as of December 31, 2016 was 0.21%, reflecting a lower number of outstanding loans and related policies in-force compared to our reported policies in-force.

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**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 2016, the U.S. dollar strengthened against the Australian dollar, which negatively impacted the results of our mortgage insurance business in Australia as reported in U.S. dollars. Any future movement in foreign exchange rates could impact future results.

The Australian gross domestic product is expected to have experienced moderate growth in 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 2.0% in 2015 to 1.5% in 2016. Australia's unemployment rate remained at 5.8% for both 2016 and 2015.

Home prices in Australia continued to appreciate throughout 2016, with December 2016 home values approximately 11% higher than a year ago. The Sydney and Melbourne housing markets continue to be the major driver with annual home price growth of approximately 15% and 14%, respectively, as of the end of 2016.

Our mortgage insurance business in Australia had higher losses in 2016 compared to 2015 largely due to higher new delinquencies and a higher average reserve per delinquency resulting from aging pressure in commodity-dependent regions, where production activity has been depressed. The loss ratio in Australia for the year ended December 31, 2016 was 34%. We expect continued elevated delinquencies and lower expected earned premiums to drive our loss ratio higher in 2017.

In 2016, our mortgage insurance business in Australia experienced a decrease in new insurance written volumes compared to 2015 primarily due to APRA's continued focus on lending standards, investment lending and serviceability. Gross premiums written in 2016 were lower compared to 2015 driven by a decrease in volume, particularly from 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, as well as the termination of a customer relationship with respect to new business in the second quarter of 2015. 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, our high loan-to-value mortgages in proportion to total originations were lower in 2016 compared to 2015. This resulted 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 expired on December 31, 2016. In November 2016, we entered into a new contract with this customer, effective January 1, 2017 with a term of three years. In 2016, this customer represented 36% of our new insurance written. The contract with our second largest customer expires at the end of February 2017. Our mortgage insurance business in Australia remains in discussions with that customer and is aware that they are considering alternatives to mortgage insurance. As a result, the level of new business from this customer could be reduced going forward.

Our mortgage insurance business in Australia evaluates its capital position in relation to the PCA as determined by APRA, utilizing the 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 December 31, 2016, the PCA ratio of our mortgage insurance business in Australia was 157% representing a decrease from 159% as of December 31, 2015, largely resulting from the payment of both ordinary and special returns of capital in 2016.

**Table of Contents****Segment results of operations**

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Revenues:</b>							
Premiums	\$ 337	\$ 357	\$ 406	\$ (20)	(6)%	\$ (49)	(12)%
Net investment income	94	114	144	(20)	(18)%	(30)	(21)%
Net investment gains (losses)	9	6	3	3	50%	3	100%
Policy fees and other income		(3)	(16)	3	100%	13	81%
<b>Total revenues</b>	<b>440</b>	<b>474</b>	<b>537</b>	<b>(34)</b>	<b>(7)%</b>	<b>(63)</b>	<b>(12)%</b>
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	113	81	78	32	40%	3	4%
Acquisition and operating expenses, net of deferrals	96	98	97	(2)	(2)%	1	1%
Amortization of deferred acquisition costs and intangibles	14	18	21	(4)	(22)%	(3)	(14)%
Interest expense	10	10	10		%		%
<b>Total benefits and expenses</b>	<b>233</b>	<b>207</b>	<b>206</b>	<b>26</b>	<b>13%</b>	<b>1</b>	<b>%</b>
<b>Income from continuing operations before income taxes</b>							
Income from continuing operations before income taxes	207	267	331	(60)	(22)%	(64)	(19)%
Provision for income taxes	67	80	248	(13)	(16)%	(168)	(68)%
<b>Income from continuing operations</b>	<b>140</b>	<b>187</b>	<b>83</b>	<b>(47)</b>	<b>(25)%</b>	<b>104</b>	<b>125%</b>
Less: income from continuing operations attributable to noncontrolling interests	75	84	56	(9)	(11)%	28	50%
<b>Income from continuing operations available to Genworth Financial, Inc. s common stockholders</b>							
Income from continuing operations available to Genworth Financial, Inc. s common stockholders:	65	103	27	(38)	(37)%	76	NM <sup>(1)</sup>
Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders:							
Net investment (gains) losses, net <sup>(2)</sup>	(5)	(3)	(2)	(2)	(67)%	(1)	(50)%
(Gains) losses on early extinguishment of debt, net <sup>(3)</sup>		1		(1)	(100)%	1	NM <sup>(1)</sup>
Tax impact from potential business portfolio changes			174		%	(174)	(100)%
Taxes on adjustments	2	1	1	1	100%		%

Adjusted operating income available to Genworth Financial, Inc. s common stockholders	\$ 62	\$ 102	\$ 200	\$ (40)	(39)%	\$ (98)	(49)%
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- (1) We define NM as not meaningful for increases or decreases greater than 200%.
- (2) For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for the portion of net investment gains (losses) attributable to noncontrolling interests of \$4 million, \$3 million and \$1 million, respectively.
- (3) For the year ended December 31, 2015, (gains) losses on early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of \$1 million.

***2016 compared to 2015***

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

Adjusted 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 2016. The year ended December 31, 2016 also included a decrease of \$2 million attributable to changes in foreign exchange rates.

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

Premiums decreased primarily driven by lower flow volume and the seasoning of our smaller prior year in-force blocks of business in 2016, 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 2015 that did not recur. These decreases were partially offset by higher premiums in 2016 as a result of the premium recognition factors that were refined in 2015, lower ceded reinsurance and higher policy cancellations. The year ended December 31, 2016 included a decrease of \$8 million attributable to changes in foreign exchange rates.

Net investment income decreased primarily from lower average invested assets and lower yields. The year ended December 31, 2016 included a decrease of \$3 million attributable to changes in foreign exchange rates.

Net investment gains increased primarily driven by higher net investment gains related to sales of securities in 2016.

Policy fees and other income in 2015 was a result of non-functional currency transactions attributable to changes in foreign exchange rates on 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 2016. In addition, 2015 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 third quarter of 2015 that did not recur mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. The year ended December 31, 2016 included a decrease of \$3 million attributable to changes in foreign exchange rates.

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.

Amortization of deferred acquisition costs and intangibles decreased mainly driven by lower software amortization in 2016.

*Provision for income taxes.* The effective tax rate increased to 32.3% for the year ended December 31, 2016 from 30.0% for the year ended December 31, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income. The year ended December 31, 2016 included a decrease of \$2 million attributable to changes in foreign exchange rates.

***2015 compared to 2014******Adjusted operating income available to Genworth Financial, Inc.'s common stockholders***

Adjusted operating income available to Genworth Financial, Inc.'s common stockholders decreased primarily driven by the IPO of this business in May 2014, which reduced our ownership percentage to 66.2%. In May 2015, we sold additional shares of this business, which further reduced our ownership percentage to 52.0%. The decrease was also attributable to higher losses and operating expenses in 2015. The year ended December 31, 2015 also included a



decrease of \$21 million attributable to changes in foreign exchange rates.

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

Premiums decreased driven by a \$71 million decrease attributable to changes in foreign exchange rates in 2015. Excluding the effects of foreign exchange, premiums increased primarily as a result of the seasoning of our in-force blocks of business, an adjustment of \$8 million in the third quarter of 2015 relating to refinements to premium recognition factors and higher premiums resulting from policy cancellations and refunds in 2015. These increases were partially offset by a decrease in premiums from lower flow volume and higher ceded reinsurance premiums in 2015.

Net investment income decreased primarily from a \$22 million decrease attributable to changes in foreign exchange rates and lower reinvestment yields in 2015.

Net investment gains increased primarily driven by higher net investment gains related to sales of securities in 2015. The year ended December 31, 2015 also included a decrease of \$2 million attributable to changes in foreign exchange rates.

Policy fees and other income increased primarily due to higher losses in 2014 on non-functional currency transactions attributable to changes in foreign exchange rates on remeasurement and partial payments of intercompany loans in 2014 that did not recur.

***Benefits and expenses***

Benefits and other changes in policy reserves increased due to an increase in change in reserves of \$35 million, partially offset by lower net paid claims of \$32 million. The increase was primarily from an increase in reserves of \$9 million in the third quarter of 2015 mainly related to the estimate of the period of time it takes for a delinquent loan to be reported, a higher number of new delinquencies, net of cures, and an increase in the average claim payment in 2015. Partially offsetting these increases was a favorable adjustment of \$7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods. The year ended December 31, 2015 also included a decrease of \$17 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, increased primarily from higher operating expenses in 2015 related to contract fees 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. These increases were mostly offset by a decrease of \$18 million attributable to changes in foreign exchange rates in 2015.

Amortization of deferred acquisition costs and intangibles decreased from a \$3 million decrease attributable to changes in foreign exchange rates in 2015.

*Provision for income taxes.* The effective tax rate decreased to 30.0% for the year ended December 31, 2015 from 74.9% for the year ended December 31, 2014. The decrease in the effective tax rate was primarily attributable to a charge of \$174 million in the fourth quarter of 2014 related to a change in intent for permanent reinvestment of unremitted foreign income that did not recur. The year ended December 31, 2015 included a decrease of \$17 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests increased primarily related to the IPO of this business in May 2014, which reduced our ownership percentage to 66.2%, and the sale of additional shares in May 2015, which further reduced our ownership percentage to 52.0% in 2015. The year ended December 31, 2015 included a decrease of

\$16 million attributable to changes in foreign exchange rates.

**Table of Contents*****Australia Mortgage Insurance selected operating performance measures***

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

(Amounts in millions)	As of or for the years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
Primary insurance in-force	\$ 234,000	\$ 233,600	\$ 256,000	\$ 400	%	\$ (22,400)	(9)%
Risk in-force	\$ 81,400	\$ 81,500	\$ 89,600	\$ (100)	%	\$ (8,100)	(9)%
New insurance written	\$ 19,800	\$ 24,900	\$ 32,900	\$ (5,100)	(20)%	\$ (8,000)	(24)%
Net premiums written	\$ 231	\$ 328	\$ 509	\$ (97)	(30)%	\$ (181)	(36)%

**2016 compared to 2015**

***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 and New Zealand. For the years ended December 31, 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 increased primarily from flow new insurance written during 2016. The year ended included a decrease of \$2.4 billion attributable to changes in foreign exchange rates.

Risk in-force decreased driven by a decrease of \$0.8 billion attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, primary insurance in-force and risk in-force increased primarily from flow new insurance written during 2016.

***New insurance written***

New insurance written decreased for the year ended December 31, 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 2016 resulting from regulatory focus on the market. New insurance written also decreased from the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The year ended December 31, 2016 included a decrease of \$400 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 December 31, 2016, our unearned

premium reserves were \$850 million, compared to \$963 million as of December 31, 2015. Unearned premium reserves decreased primarily as a result of lower premiums written from lower business volume in 2016.

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Net premiums written decreased primarily from lower flow volume and from changes in the loan-to-value mix in 2016, as well as the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The year ended December 31, 2016 included a decrease of \$4 million attributable to changes in foreign exchange rates.

***2015 compared to 2014******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 years ended December 31, 2015 and 2014, this factor was 35%. We also 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.

Primary insurance in-force and risk in-force decreased driven by decreases of \$27.9 billion and \$9.8 billion, respectively, attributable to changes in foreign exchange rates. Excluding the effects of foreign exchange, primary insurance in-force and risk in-force increased primarily from flow new insurance written during 2015.

***New insurance written***

New insurance written decreased mainly attributable to lower flow volume from tightening of lending standards, as well as the termination of a customer relationship with respect to new business in the second quarter of 2015, partially offset by an increase in bulk mortgage insurance activity in 2015. The year ended December 31, 2015 included a decrease of \$4,800 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 December 31, 2015, our unearned premium reserves were \$963 million, including a decrease of \$100 million attributable to changes in foreign exchange rates, compared to \$1,112 million as of December 31, 2014. Unearned premium reserves decreased slightly primarily as a result of lower premiums written from lower business volume in 2015.

Net premiums written decreased primarily from lower flow volume and average price due to changes in the loan-to-value mix, as well as the termination of a customer relationship with respect to new business in the second quarter of 2015, partially offset by bulk mortgage insurance activity in 2015. The year ended December 31, 2015 included a decrease of \$62 million attributable to changes in foreign exchange rates.

***Loss and expense ratios***

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

	Years ended December 31,			Increase (decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Loss ratio	34%	23%	19%	11%	4%
Expense ratio (net earned premiums)	33%	32%	29%	1%	3%
Expense ratio (net premiums written)	47%	35%	23%	12%	12%

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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.

***2016 compared to 2015****Loss ratio*

The loss ratio increased largely attributable to new delinquencies, as well as a higher average reserve per delinquency resulting from unfavorable aging of existing delinquencies primarily in commodity-dependent regions in 2016. The year ended December 31, 2015 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. This 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 two percentage points for the year ended December 31, 2015. The increase in the loss ratio was also 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 favorable adjustment decreased the loss ratio by two percentage points for the year ended December 31, 2015.

*Expense ratio (net earned premiums)*

The expense ratio (net earned premiums) increased from lower premiums primarily driven by lower flow volume and the seasoning of our smaller prior year in-force blocks of business, as well as the termination of a customer relationship with respect to new business effective in the second quarter of 2015. The decrease in premiums was also attributable to a favorable adjustment of \$8 million relating to refinements to premium recognition factors in 2015 that did not recur. The increase in the expense ratio (net earned premiums) was 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.

*Expense ratio (net premiums written)*

The expense ratio (net premiums written) increased primarily from lower net premiums written in 2016.

***2015 compared to 2014****Loss ratio*

The loss ratio increased primarily driven by an increase in reserves of \$9 million in the third quarter of 2015 mainly related to the estimate of the period of time it takes for a delinquent loan to be reported. This increase in reserves coupled with the increase in premiums of \$8 million from refinements to premium recognition factors increased the loss ratio by two percentage points for the year ended December 31, 2015. The loss ratio also increased from a higher number of new delinquencies, net of cures, and an increase in the average claim payment, partially offset by a favorable adjustment of \$7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods. The favorable adjustment decreased the loss ratio by two percentage points for the year ended December 31, 2015.

*Expense ratio (net earned premiums)*



The expense ratio (net earned premiums) increased primarily from higher operating expenses in 2015 related to contract fees 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.

**Table of Contents***Expense ratio (net premiums written)*

The expense ratio (net premiums written) increased primarily from lower net premiums written and higher operating expenses in 2015 related to contract fees 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.

*Australia mortgage insurance loan portfolio*

The following table sets forth selected financial information regarding the loan-to-value ratio of effective risk in-force of our Australia mortgage insurance loan portfolio as of December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
95.01% and above	\$ 13,775	\$ 15,055	\$ 17,143
90.01% to 95.00%	21,593	20,933	22,207
80.01% to 90.00%	21,971	21,510	23,482
80.00% and below	24,094	23,970	26,758
<b>Total</b>	<b>\$ 81,433</b>	<b>\$ 81,468</b>	<b>\$ 89,590</b>

Overall risk in-force decreased \$0.8 billion attributable to changes in foreign exchange rates in 2016. Excluding the effects of foreign exchange, risk in-force increased primarily as a result of flow new insurance written.

*Delinquent loans and claims*

The claim process in our Australia Mortgage Insurance segment is similar to the process we follow in our U.S. mortgage insurance business. See U.S. Mortgage Insurance Delinquent loans and claims. 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 December 31:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Primary insured loans in-force	1,464,139	1,478,434	1,496,616
Delinquent loans	6,731	5,552	4,953
Percentage of delinquent loans (delinquency rate)	0.46%	0.38%	0.33%
Flow loan in-force	1,354,616	1,364,628	1,378,584
Flow delinquent loans	6,451	5,317	4,714
Percentage of flow delinquent loans (delinquency rate)	0.48%	0.39%	0.34%
Bulk loans in-force	109,523	113,806	118,032
Bulk delinquent loans	280	235	239
Percentage of bulk delinquent loans (delinquency rate)	0.26%	0.21%	0.20%

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.



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

	Percent of primary risk in-force as of December 31, 2016	Delinquency rate as of December 31,		
		2016	2015	2014
By state and territory:				
New South Wales	28%	0.30%	0.27%	0.27%
Queensland	23	0.66%	0.53%	0.47%
Victoria	23	0.38%	0.33%	0.30%
Western Australia	12	0.74%	0.46%	0.32%
South Australia	6	0.61%	0.51%	0.44%
Australian Capital Territory	3	0.17%	0.17%	0.16%
Tasmania	2	0.35%	0.32%	0.25%
New Zealand	2	0.07%	0.17%	0.28%
Northern Territory	1	0.36%	0.17%	0.16%
Total	100%	0.46%	0.38%	0.33%

Delinquency rates increased primarily from higher new delinquencies, particularly 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 will continue to monitor our experience and assumptions closely and make changes to our assumptions and methodologies, as appropriate, for our U.S. life insurance products. Even small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our DAC amortization, reserve levels, results of operations and financial condition.

We perform loss recognition testing to ensure that the current reserves along with the present value of future gross premiums are sufficient to cover the present value of future expected claims and expense, as well as recover the unamortized portion of DAC and, if any, PVFP. If the loss recognition test indicates a deficiency in the ability to pay all future claims and expenses, including the amortization of DAC and PVFP, a loss is recognized in earnings as an impairment of the DAC and/or PVFP balance and, if the loss is greater than the DAC and/or PVFP balance, by an increase in reserves. Our liability for policy and contract claims is reviewed quarterly and we conduct a review of our

claim reserve assumptions for our long-term care insurance business annually typically during the third quarter of each year. 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 performed assumption reviews for our universal and term universal life insurance products as well as for our other U.S. life insurance products and completed our loss recognition testing. For a discussion of additional information related to changes to our assumptions and methodologies, including certain related sensitivities, see Critical Accounting Estimates.

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Our U.S. Life Insurance segment will continue to migrate to a new valuation and projection platform for certain lines of business, while we upgrade platforms for other lines of business. The migration and upgrades are part of our ongoing efforts to improve the infrastructure and capabilities of our information systems and our routine assessment and refinement of financial, actuarial, investment and risk management capabilities 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. In addition, we intend to continue to enhance our modeling capabilities of our various businesses, including for our long-term care insurance projections where we migrated to a new modeling system 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 new modeling system will value and forecast associated liability cash flows and policyholder behavior at a more granular level than our current system.

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

*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 ratings, product features, pricing and commission levels and the impact of in-force rate actions on distribution and consumer demand. Changes in regulations or government programs, including long-term care insurance rate action legislation, could impact our long-term care insurance business either positively or negatively.

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 Liabilities for policy and contract claims**.

In the fourth quarter of 2016, we performed our loss recognition and cash flow testing. We incorporated the assumption and methodology changes made in the third quarter of 2016 into these tests. These changes had a material

negative impact on the margins of our long-term care insurance block, excluding the acquired block. The acquired block has a higher percentage of indemnity policies and was positively affected by the new claim

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assumptions. As a part of the process, we considered incremental benefits from expected further rate actions that helped mitigate the impact of these changes. As part of the annual testing, we also reviewed 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 and cash flow testing results. As of December 31, 2016, our loss recognition testing margins for our long-term care insurance business were positive but have been significantly reduced from the 2015 levels. 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 [Critical Accounting Estimates](#) Future policy benefits.

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 2017 than the levels we experienced in 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 non-forfeiture options within their policy coverage. In addition, we periodically review our reserve assumptions and methodologies based upon developing experience, which may result in changes to claim reserves and loss recognition testing results, causing volatility in our operating results and loss ratios. Our loss ratio for the year ended December 31, 2016 was 90%, reflecting our updated assumptions and methodologies from our review in the third quarter of 2016, compared to 74% for the year ended December 31, 2015.

One of our strategic priorities in 2016 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 was 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 was an adverse impact on GLIC's RBC ratio of approximately eight points in the fourth quarter of 2016.

Our long-term care insurance sales decreased 47% in 2016 compared to 2015. Sales decreased primarily due to our lower ratings and certain distributor suspensions driven by adverse rating agency actions. We expect that our sales will continue to be adversely impacted by our current ratings. Future adverse ratings announcements or actions could negatively impact our sales levels further.

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



market over time and meet broader consumer needs.

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

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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, an increase in our benefit costs as policies with reinsurance coverage exhaust their benefits or terminate and policies which are not covered by reinsurance go on claim.

As a result of ongoing challenges in our long-term care insurance business, we continue pursuing initiatives to improve the risk and profitability profile of our business including: premium rate increases and associated benefit reductions on our in-force policies; product refinements; changes to our current product offerings in certain states; new distribution strategies; refining underwriting requirements; managing expense levels; actively exploring additional reinsurance strategies; executing investment strategies targeting higher returns; enhancing our financial and actuarial analytical capabilities; and considering other actions to improve the performance of the overall business. These efforts include a plan for significant future in-force premium rate increases on issued policies. For an update on rate actions, refer to Significant Developments U.S. Life Insurance. We have suspended sales in Massachusetts, New Hampshire and Vermont, and will consider taking similar actions in the future, in other states where we are unable to obtain satisfactory rate increases on in-force policies. We will also consider litigation against states that decline actuarially justified rate increases. We are currently in litigation with one state that has refused to approve actuarially justified rate actions. The approval process for in-force premium rate increases and the amount and timing of the rate increases approved vary by state. In certain states, the decision to approve or disapprove a rate increase can take several years. Upon approval, insureds are provided with written notice of the increase and increases are generally applied on the insureds next policy anniversary date. As a result, the benefits of any rate increase are not fully realized until the implementation cycle is complete and are, therefore, expected to be realized over time.

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, American Network Insurance Company (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. On November 9, 2016, the state court held a hearing on the Commissioner's petition to convert the rehabilitation into liquidation with no objections. 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 December 31, 2016, the liquidation order had not been entered, although an order of liquidation is expected in or shortly after March 2017. As a result, we were unable to estimate when or to what extent Penn Treaty will ultimately be declared insolvent, or the amount of the insolvency and we have not established any accruals for guaranty fund assessments associated with Penn Treaty as of December 31, 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 mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements, among other factors.

We review our life assumptions at least annually typically in the third or fourth quarter of each year. In the fourth quarter of 2015, we completed our annual review of assumptions, which resulted in \$194 million of

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after-tax charges in our universal and term universal life insurance products. The updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements. 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, for which we did not make any changes at that time. As part of our annual review of assumptions in the fourth quarter of 2016, we reviewed these and other assumptions, including interest rate assumptions, with the benefit of updated experience and comparisons to industry experience, where appropriate. As part of this review, we implemented an updated mortality table for our life insurance products. This updated table improved our mortality rates in younger ages but deteriorated mortality rates in older ages. In 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.

As a result, we recorded \$196 million of after-tax charges in our universal and term universal life insurance products primarily reflecting the mortality experience deterioration in older age populations. We will continue to regularly review our assumptions in light of emerging experience and may be required to make further adjustments to our universal and term universal life insurance reserves in the future, which could also impact our loss recognition testing results. Any further materially adverse changes to our 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. In connection with the updated assumptions from our 2016 review, we expect to record higher DAC amortization and establish higher reserves, which will decrease earnings in future periods. For a discussion of additional information related to changes to our assumptions, see Critical Accounting Estimates.

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 December 31, 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.

Life insurance sales decreased 74% in 2016 compared to 2015. The decrease in our sales was predominantly related to the suspension of sales on March 7, 2016, our competitive positioning in the marketplace and distributor suspensions following adverse rating actions.

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 annually by reducing interest expense.

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 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.

**Table of Contents***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.

Sales of fixed annuities decreased 84% in 2016 compared to 2015. The decrease in our sales was primarily due to our decision to suspend sales of our traditional fixed annuity products on March 7, 2016.

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.

*Segment results of operations*

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
<b>Revenues:</b>							
Premiums	\$ 2,670	\$ 3,128	\$ 3,169	\$ (458)	(15)%	\$ (41)	(1)%
Net investment income	2,726	2,701	2,665	25	1%	36	1%
Net investment gains (losses)	128	(10)	41	138	NM <sup>(1)</sup>	(51)	(124)%
Policy fees and other income	726	726	712		%	14	2%
Total revenues	6,250	6,545	6,587	(295)	(5)%	(42)	(1)%
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	4,822	4,692	5,820	130	3%	(1,128)	(19)%
Interest credited	565	596	618	(31)	(5)%	(22)	(4)%
Acquisition and operating expenses, net of deferrals	648	684	658	(36)	(5)%	26	4%
Amortization of deferred acquisition costs and intangibles	403	872	345	(469)	(54)%	527	153%
Goodwill impairment			849		%	(849)	(100)%
Interest expense	38	92	87	(54)	(59)%	5	6%
Total benefits and expenses	6,476	6,936	8,377	(460)	(7)%	(1,441)	(17)%
Loss from continuing operations before income taxes	(226)	(391)	(1,790)	165	42%	1,399	78%

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Benefit for income taxes	(80)	(138)	(385)	58	42%	247	64%
Loss from continuing operations	(146)	(253)	(1,405)	107	42%	1,152	82%
Adjustments to loss from continuing operations:							
Net investment (gains) losses, net <sup>(2)</sup>	(133)	(5)	(42)	(128)	NM <sup>(1)</sup>	37	88%
Goodwill impairment			849		%	(849)	(100)%
Losses from life block transactions	9	455		(446)	(98)%	455	NM <sup>(1)</sup>
Expenses related to restructuring	19	5		14	NM <sup>(1)</sup>	5	NM <sup>(1)</sup>
Gains on sale of businesses	(1)			(1)	NM <sup>(1)</sup>		%
Taxes on adjustments	37	(159)	(43)	196	123%	(116)	NM <sup>(1)</sup>
Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders	\$ (215)	\$ 43	\$ (641)	\$ (258)	NM <sup>(1)</sup>	\$ 684	107%

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

(2) For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(5) million, \$(15) million and \$(1) million, respectively.

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
Adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders:							
Long-term care insurance	\$ (200)	\$ 29	\$ (815)	\$ (229)	NM <sup>(1)</sup>	\$ 844	104%
Life insurance	(83)	(80)	74	(3)	(4)%	(154)	NM <sup>(1)</sup>
Fixed annuities	68	94	100	(26)	(28)%	(6)	(6)%
Total adjusted operating income (loss) available to Genworth Financial, Inc.'s common stockholders	\$ (215)	\$ 43	\$ (641)	\$ (258)	NM <sup>(1)</sup>	\$ 684	107%

<sup>(1)</sup> We define NM as not meaningful for increases or decreases greater than 200%.  
**2016 compared to 2015**

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

Our long-term care insurance business had an adjusted operating loss available to Genworth Financial, Inc.'s common stockholders of \$200 million in 2016 compared to adjusted operating income available to Genworth Financial, Inc.'s common stockholders of \$29 million in 2015 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 Liability for policy and contract claims for additional information). This decrease was partially offset by higher premiums and reduced benefits of \$130 million in 2016 from in-force rate actions approved and implemented.

The adjusted operating loss available to Genworth Financial, Inc.'s common stockholders in our life insurance business increased \$3 million principally from a higher unfavorable unlocking of \$2 million in our universal and term universal life insurance products as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates for additional information).

Our fixed annuities business decreased \$26 million largely related to loss recognition testing in our fixed immediate annuity products that resulted in a charge of \$25 million mainly driven by the low interest rate environment in 2016 (see Critical Accounting Estimates Deferred acquisition costs/Future policy benefits for



additional information).

***Revenues***

*Premiums*

Our long-term care insurance business increased \$77 million principally from \$125 million of increased premiums in 2016 from in-force rate actions approved and implemented, partially offset by policy terminations in 2016.

Our life insurance business decreased \$517 million attributable to higher ceded reinsurance and lower sales in 2016. 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 \$18 million principally from lower sales of our life-contingent products in 2016.

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*Net investment income*

Our long-term care insurance business increased \$97 million largely from higher average invested assets due to growth of our in-force block and \$13 million of higher income related to inflation-driven volatility on U.S. Government Treasury Inflation Protected Securities ( TIPS ) purchases, partially offset by lower reinvestment yields and \$7 million of lower gains from bond calls and mortgage loan prepayments in 2016.

Our life insurance business decreased \$11 million largely from lower average invested assets, partially offset by \$5 million in net unfavorable prepayment speed adjustments on structured securities in 2015.

Our fixed annuities business decreased \$61 million largely due to lower average invested assets, \$10 million of lower gains from limited partnerships and \$4 million of lower gains from bond calls and mortgage loan prepayments in 2016.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business increased \$111 million primarily related to net gains of \$130 million from the sale of TIPS, partially offset by lower derivative gains in 2016.

Net investment gains in our life insurance business increased \$11 million predominantly attributable to lower impairments and higher gains on embedded derivatives related to our indexed universal life insurance products in 2016.

Net investment losses in our fixed annuities business decreased \$16 million predominantly from lower net losses on embedded derivatives related to our fixed indexed annuities as well as lower net losses from the sale of investment securities, partially offset by higher impairments in 2016.

*Policy fees and other income*

Our life insurance business decreased \$4 million predominantly from a less favorable unlocking of \$6 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015.

Our fixed annuities business increased \$4 million largely driven by higher surrender fee income in 2016.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased \$565 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 Liability for policy and contract claims for additional information). The increase was also attributable to aging and growth of the in-force block, higher severity on new claims and \$50 million of net unfavorable adjustments, which included refinements to the calculations of reserves in 2016. These increases were partially offset by reduced benefits of \$85 million in 2016 related to in-force rate actions approved and implemented.

Our life insurance business decreased \$380 million principally related to higher ceded reinsurance in 2016. 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 a higher unfavorable unlocking in our universal and term universal life insurance products of

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\$21 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates Policyholder account balances for additional information).

Our fixed annuities business decreased \$55 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 2016. The decrease was also attributable to lower sales of our life-contingent products and lower interest credited in 2016. These decreases were partially offset by an increase in reserves of \$24 million related to loss recognition testing in our fixed immediate annuity products primarily driven by the low interest rate environment (see Critical Accounting Estimates Future policy benefits for additional information).

*Interest credited*

Our life insurance business decreased \$9 million predominantly from lower crediting rates in our universal life insurance products in 2016.

Our fixed annuities business decreased \$22 million largely driven by a decline in average account values and lower crediting rates in 2016.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business decreased \$38 million predominantly from lower sales and marketing costs in 2016.

Our life insurance business decreased \$44 million primarily related to lower operating expenses attributable to a decline in sales, partially offset by \$7 million of higher restructuring charges in 2016.

Our fixed annuities business increased \$46 million largely attributable to a \$55 million payment in connection with the recapture of certain life-contingent products by a third party, partially offset by lower operating expenses driven by a decline in sales in 2016.

*Amortization of deferred acquisition costs and intangibles*

Our life insurance business decreased \$480 million principally from a DAC impairment of \$455 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of a life block transaction that was finalized in the first quarter of 2016. The decrease was also attributable to a lower unfavorable unlocking in our universal and term universal life insurance products of \$24 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates Deferred acquisition costs/Present value of future profits for additional information).

Our fixed annuities business increased \$7 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 2016 (see Critical Accounting Estimates Deferred acquisition costs for additional information). This increase was partially offset by a higher favorable unlocking of \$7 million in 2016 driven by changes in lapse assumptions.

*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 2016.

*Benefit for income taxes.* The effective tax rate was 35.3% for the years ended December 31, 2016 and 2015.

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***2015 compared to 2014***

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

Our long-term care insurance business had adjusted operating income available to Genworth Financial, Inc. s common stockholders of \$29 million in 2015 compared to an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of \$815 million in 2014. The adjusted operating loss available to Genworth Financial, Inc. s common stockholders in 2014 was driven by our annual loss recognition testing in the fourth quarter of 2014 resulting in an increase of \$478 million of reserves and amortization of PVFP and the completion of a comprehensive review of our claim reserves in the third quarter of 2014 resulting in increased claim reserves of \$345 million. We also had \$69 million of higher premiums and reduced benefits from in-force rate actions approved and implemented in 2015. These increases were partially offset by higher severity and frequency on new claims.

Our life insurance business had an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of \$80 million in 2015 compared to adjusted operating income available to Genworth Financial, Inc. s common stockholders of \$74 million in 2014. The decrease was predominantly related to the completion of our annual review of assumptions in the fourth quarter of 2015, which resulted in \$194 million of charges, which included \$36 million of corrections related to reinsurance inputs, in our universal and term universal life insurance products. The updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements. These decreases were partially offset by our term life insurance products largely due to an unfavorable reserve correction of \$32 million related to reserves on a reinsurance transaction in 2014 that did not recur and favorable mortality in 2015.

Our fixed annuities business decreased \$6 million primarily related to lower investment income, partially offset by lower interest credited in 2015.

***Revenues***

***Premiums***

Our long-term care insurance business increased \$101 million largely from \$96 million of higher premiums in 2015 from in-force rate actions approved and implemented.

Our life insurance business decreased \$52 million primarily related to higher ceded reinsurance, lapse experience and lower production in 2015.

Our fixed annuities business decreased \$90 million principally from lower sales of our life-contingent products in 2015.

***Net investment income***

Our long-term care insurance business increased \$107 million largely from higher average invested assets due to growth of our in-force block, higher gains of \$12 million from bond calls and mortgage loan prepayments and an \$8 million unfavorable prepayment speed adjustment on structured securities in 2014 that did not recur. These increases were partially offset by lower reinvestment yields.

Our life insurance business decreased \$16 million largely from lower reinvestment yields and average invested assets in 2015.

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Our fixed annuities business decreased \$55 million largely due to lower reinvestment yields and average invested assets. The decrease was also attributable to lower gains of \$6 million from limited partnerships and a decrease of \$4 million in bond calls and mortgage loan prepayments in 2015.

***Net investment gains (losses)***

Net investment gains in our long-term care insurance business increased \$20 million largely from higher derivative gains, partially offset by net losses from the sale of investment securities in 2015 compared to net gains in 2014.

Net investment gains in our life insurance business decreased \$21 million primarily from lower net gains from the sale of investment securities and higher impairments in 2015.

Net investment losses in our fixed annuities business increased \$50 million largely related to derivative losses in 2015 compared to gains in 2014. The increase was also attributable to net losses from the sale of investment securities in 2015 compared to gains in 2014 and higher impairments, partially offset by lower losses on embedded derivatives related to our fixed indexed annuities in 2015.

***Policy fees and other income.*** The increase was primarily attributable to our life insurance business largely related to our universal life insurance products driven by a \$12 million favorable impact associated with the completion of our annual review of assumptions in the fourth quarter of 2015. The increase was also attributable to higher income from certain older universal life insurance in-force policies. These increases were partially offset by lower production, a decrease in our term universal and universal life insurance in-force blocks and higher terminations in our term universal life insurance product in 2015.

***Benefits and expenses******Benefits and other changes in policy reserves***

Our long-term care insurance business decreased \$1,089 million. The decrease was largely related to our annual loss recognition testing in the fourth quarter of 2014 that resulted in an increase of \$729 million of reserves and the completion of a comprehensive review of our claim reserves in the third quarter of 2014 that resulted in an increase in claim reserves of \$531 million, net of reinsurance. These decreases were partially offset by aging and growth of the in-force block, higher severity and frequency on new claims and incremental reserves of \$13 million recorded in connection with an accrual for profits followed by losses in 2015.

Our life insurance business increased \$64 million primarily related to our universal and term universal life insurance products largely from the completion of our annual review of assumptions in the fourth quarter of 2015 that resulted in an increase in reserves of \$187 million. The increase was also attributable to unfavorable mortality in our term universal life insurance product and a favorable unlocking of \$23 million in our term universal and universal life insurance products in 2014. These increases were partially offset by our term life insurance products principally from a \$49 million unfavorable correction related to reserves on



a reinsurance transaction recorded in the fourth quarter of 2014 and the recapture of a reinsurance agreement in 2014 and favorable mortality and higher ceded reinsurance in 2015.

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Our fixed annuities business decreased \$103 million predominantly attributable to lower sales of our life-contingent products and lower interest credited in 2015.

*Interest credited.* The decrease was mainly related to our fixed annuities business driven by lower crediting rates and a decrease in average account values in 2015.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business increased \$16 million primarily from growth of our in-force block and a restructuring charge, partially offset by lower marketing costs in 2015.

Our life insurance business increased \$9 million largely from higher net commissions due to lower deferrals on older in-force blocks and higher variable compensation costs, partially offset by lower production in 2015.

*Amortization of deferred acquisition costs and intangibles*

Our long-term care insurance business decreased \$13 million largely related to the write-off of PVFP in connection with our annual loss recognition testing completed in the fourth quarter of 2014 which also resulted in lower amortization in 2015.

Our life insurance business increased \$560 million largely from a DAC impairment of \$455 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of a life block transaction. In the fourth quarter of 2015, as part of our annual review of assumptions, we recorded an unfavorable unlocking in our universal life insurance products of \$123 million, which included \$63 million of corrections related to reinsurance inputs. In 2014, we recorded an unfavorable unlocking of \$12 million in our term universal and universal life insurance products.

Our fixed annuities business decreased \$20 million largely attributable to higher net investment losses and a decrease in account values in 2015.

*Goodwill impairment*

We recorded goodwill impairments of \$354 million in our long-term care insurance business in 2014.

We recorded goodwill impairments of \$495 million in our life insurance business in 2014.

*Interest expense.* Interest expense increased driven by our life insurance business principally from the impact of credit rating downgrades of our life insurance subsidiaries which increased the cost of financing term life insurance reserves, partially offset by a refinancing transaction executed in 2015.

*Benefit for income taxes.* The effective tax rate increased to 35.3% for the year ended December 31, 2015 from 21.5% for the year ended December 31, 2014. The increase in the effective tax rate was primarily attributable to non-deductible goodwill impairments in 2014.

**Table of Contents*****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)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
<b>Net earned premiums:</b>							
Individual long-term care insurance	\$ 2,416	\$ 2,330	\$ 2,234	\$ 86	4%	\$ 96	4%
Group long-term care insurance	98	107	102	(9)	(8)%	5	5%
<b>Total</b>	<b>\$ 2,514</b>	<b>\$ 2,437</b>	<b>\$ 2,336</b>	<b>\$ 77</b>	<b>3%</b>	<b>\$ 101</b>	<b>4%</b>
<b>Annualized first-year premiums and deposits:</b>							
Individual long-term care insurance	\$ 12	\$ 33	\$ 90	\$(21)	(64)%	\$(57)	(63)%
Group long-term care insurance	8	5	10	3	60%	(5)	(50)%
<b>Total</b>	<b>\$ 20</b>	<b>\$ 38</b>	<b>\$ 100</b>	<b>\$(18)</b>	<b>(47)%</b>	<b>\$(62)</b>	<b>(62)%</b>
<b>Loss ratio</b>	<b>90%</b>	<b>74%</b>	<b>129%</b>	<b>16%</b>		<b>(55)%</b>	

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.

***2016 compared to 2015***

Net earned premiums increased mostly from \$125 million of increased premiums in 2016 from in-force rate actions approved and implemented, partially offset by policy terminations in 2016.

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 largely related to the significant increase in benefits and other changes in reserves in 2016 compared to 2015 as discussed above. These increases were partially offset by \$125 million of higher premiums in 2016 from in-force rate actions approved and implemented.

***2015 compared to 2014***

Net earned premiums increased mainly attributable to higher premiums of \$96 million in 2015 from in-force rate actions approved and implemented.

Annualized first-year premiums and deposits decreased principally from higher pricing on the product launched in 2014 and certain distributor suspensions driven by rating agency actions in the fourth quarter of 2014.

The loss ratio decreased largely related to the significant decrease in benefits and other changes in reserves in 2015 compared to 2014 as discussed above. The decrease was also attributable to \$96 million of higher premiums in 2015 from in-force rate actions approved and implemented.

**Table of Contents****Life insurance**

The following table sets forth selected operating performance measures regarding our life insurance business as of or for the dates indicated:

(Amounts in millions)	As of or for years ended December 31,			Increase (decrease) and percentage change				
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014		
<b>Term and whole life insurance</b>								
Net earned premiums	\$ 153	\$ 670	\$ 722	\$ (517)	(77)%	\$ (52)	(7)%	
Sales	7	31	51	(24)	(77)%	(20)	(39)%	
Life insurance in-force, net of reinsurance	202,645	312,226	353,631	(109,581)	(35)%	(41,405)	(12)%	
Life insurance in-force before reinsurance	488,312	510,529	522,761	(22,217)	(4)%	(12,232)	(2)%	
<b>Term universal life insurance</b>								
Net deposits	\$ 250	\$ 259	\$ 269	\$ (9)	(3)%	\$ (10)	(4)%	
Life insurance in-force, net of reinsurance	121,856	125,001	128,289	(3,145)	(3)%	(3,288)	(3)%	
Life insurance in-force before reinsurance	122,748	125,928	129,296	(3,180)	(3)%	(3,368)	(3)%	
<b>Universal life insurance</b>								
Net deposits	\$ 376	\$ 486	\$ 561	\$ (110)	(23)%	\$ (75)	(13)%	
Sales:								
Universal life insurance	4	13	31	(9)	(69)%	(18)	(58)%	
Linked-benefits	3	10	16	(7)	(70)%	(6)	(38)%	
Life insurance in-force, net of reinsurance	38,836	40,376	41,959	(1,540)	(4)%	(1,583)	(4)%	
Life insurance in-force before reinsurance	44,524	46,582	48,570	(2,058)	(4)%	(1,988)	(4)%	
<b>Total life insurance</b>								
Net earned premiums and deposits	\$ 779	\$ 1,415	\$ 1,552	\$ (636)	(45)%	\$ (137)	(9)%	
Sales:								
Term life insurance	7	31	51	(24)	(77)%	(20)	(39)%	
Universal life insurance	4	13	31	(9)	(69)%	(18)	(58)%	
Linked-benefits	3	10	16	(7)	(70)%	(6)	(38)%	
Life insurance in-force, net of reinsurance	363,337	477,603	523,879	(114,266)	(24)%	(46,276)	(9)%	
Life insurance in-force before reinsurance	655,584	683,039	700,627	(27,455)	(4)%	(17,588)	(3)%	

**2016 compared to 2015***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 2016. 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 products decreased predominantly related to certain distributor suspensions driven by rating agency actions and from the suspension of sales of our traditional life insurance products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

*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 from distributor suspensions following adverse rating actions and from the suspension of sales of our traditional life insurance products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

**Table of Contents****2015 compared to 2014***Term and whole life insurance*

Net earned premiums decreased primarily due to higher ceded reinsurance, lapse experience and lower production in 2015. Sales of our term life insurance product decreased predominantly related to changes in our competitive position in the marketplace in 2015. The decrease in life insurance in-force was principally related to a reinsurance transaction and higher lapses in 2016.

*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 in 2016 primarily related to changes in our competitive positioning in the marketplace and distributor suspensions following adverse rating actions in the fourth quarter of 2014. Our life insurance in-force decreased primarily from higher lapses of older issued policies and lower deposits in 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 years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Single Premium Deferred Annuities</b>							
Account value, beginning of period	\$ 12,480	\$ 12,437	\$ 11,807	\$ 43	%	\$ 630	5%
Deposits	177	1,080	1,699	(903)	(84)%	(619)	(36)%
Surrenders, benefits and product charges	(1,151)	(1,339)	(1,410)	188	14%	71	5%
Net flows	(974)	(259)	289	(715)	NM <sup>(1)</sup>	(548)	(190)%
Interest credited and investment performance	300	302	341	(2)	(1)%	(39)	(11)%
Account value, end of period	\$ 11,806	\$ 12,480	\$ 12,437	\$ (674)	(5)%	\$ 43	%
<b>Single Premium Immediate Annuities</b>							
Account value, beginning of period	\$ 5,180	\$ 5,763	\$ 5,837	\$ (583)	(10)%	\$ (74)	(1)%
Premiums and deposits	98	152	274	(54)	(36)%	(122)	(45)%
Surrenders, benefits and product charges	(755)	(791)	(852)	36	5%	61	7%
Net flows	(657)	(639)	(578)	(18)	(3)%	(61)	(11)%



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Interest credited	228	249	266	(21)	(8)%	(17)	(6)%
Effect of accumulated net unrealized investment gains (losses)	102	(193)	238	295	153%	(431)	(181)%
Account value, end of period	\$ 4,853	\$ 5,180	\$ 5,763	\$ (327)	(6)%	\$ (583)	(10)%

**Structured Settlements**

Account value, net of reinsurance, beginning of period	\$ 1,066	\$ 1,078	\$ 1,093	\$ (12)	(1)%	\$ (15)	(1)%
Surrenders, benefits and product charges	(62)	(69)	(72)	7	10%	3	4%
Net flows	(62)	(69)	(72)	7	10%	3	4%
Interest credited	57	57	57		%		%
Account value, net of reinsurance, end of period	\$ 1,061	\$ 1,066	\$ 1,078	\$ (5)	(0)%	\$ (12)	(1)%
Total premiums from fixed annuities	\$ 3	\$ 21	\$ 111	\$ (18)	(86)%	\$ (90)	(81)%
Total deposits on fixed annuities	\$ 272	\$ 1,211	\$ 1,862	\$ (939)	(78)%	\$ (651)	(35)%

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### ***2016 compared to 2015***

#### *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 the suspension of sales of our traditional fixed annuity products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

#### *Single Premium Immediate Annuities*

Account value of our single premium immediate annuities decreased as benefits exceeded net unrealized investment gains, interest credited and premiums. In 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 the suspension of sales of our traditional fixed annuity products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

#### *Structured Settlements*

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

### ***2015 compared to 2014***

#### *Single Premium Deferred Annuities*

Account value of our single premium deferred annuities increased as deposits and interest credited outpaced surrenders and benefits. Sales declined in 2015 primarily related to suspension of our products by distributors driven by the rating actions in the fourth quarter of 2014 and from pressured current market conditions and continued low interest rates.

#### *Single Premium Immediate Annuities*

Account value of our single premium immediate annuities decreased as benefits and net unrealized investment losses exceeded premiums and deposits and interest credited. Sales declined in 2015 primarily related to suspension of our products by distributors driven by the rating actions in the fourth quarter of 2014 and from pressured current market conditions and continued low interest rates.

#### *Structured Settlements*

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

## **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.

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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.

**Segment results of operations**

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

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
<b>Revenues:</b>							
Premiums	\$	\$ 1	\$ 3	\$ (1)	(100)%	\$ (2)	(67)%
Net investment income	147	138	129	9	7%	9	7%
Net investment gains (losses)	(14)	(69)	(66)	55	80%	(3)	(5)%
Policy fees and other income	169	189	209	(20)	(11)%	(20)	(10)%
<b>Total revenues</b>	<b>302</b>	<b>259</b>	<b>275</b>	<b>43</b>	<b>17%</b>	<b>(16)</b>	<b>(6)%</b>
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	42	44	37	(2)	(5)%	7	19%
Interest credited	131	124	119	7	6%	5	4%
Acquisition and operating expenses, net of deferrals	68	76	84	(8)	(11)%	(8)	(10)%
Amortization of deferred acquisition costs and intangibles	29	29	39		%	(10)	(26)%
Interest expense	1	1	1		%		%
<b>Total benefits and expenses</b>	<b>271</b>	<b>274</b>	<b>280</b>	<b>(3)</b>	<b>(1)%</b>	<b>(6)</b>	<b>(2)%</b>
<b>Income (loss) from continuing operations before income taxes</b>	<b>31</b>	<b>(15)</b>	<b>(5)</b>	<b>46</b>	<b>NM<sup>(1)</sup></b>	<b>(10)</b>	<b>(200)%</b>
<b>Provision (benefit) for income taxes</b>	<b>6</b>	<b>(10)</b>	<b>(19)</b>	<b>16</b>	<b>160%</b>	<b>9</b>	<b>47%</b>

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Income (loss) from continuing operations	25	(5)	14	30	NM <sup>(1)</sup>	(19)	(136)%
Adjustment to income (loss) from continuing operations:							
Net investment (gains) losses, net <sup>(2)</sup>	5	49	53	(44)	(90)%	(4)	(8)%
Taxes on adjustments	(2)	(17)	(19)	15	88%	2	11%
Adjusted operating income available to Genworth Financial, Inc. s common stockholders	\$ 28	\$ 27	\$ 48	\$ 1	4%	\$(21)	(44)%

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

(2) For 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of \$(9) million, \$(20) million and \$(13) million, respectively.

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***2016 compared to 2015***

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

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased slightly primarily driven by favorable equity market performance, partially offset by lower account values in our variable annuity products in 2016.

***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 lower gains from limited partnerships in 2016.

Net investment losses decreased primarily related to gains on embedded derivatives associated with our variable annuity products with GMWBs in 2016 compared to losses in 2015, partially offset by higher derivative losses in 2016.

Policy fees and other income decreased mainly attributable to lower account values in our variable annuity products in 2016.

***Benefits and expenses***

Interest credited increased largely related to higher cash values in our corporate-owned life insurance products in 2016.

Acquisition and operating expenses, net of deferrals, decreased largely related to lower commissions in 2016 as a result of the runoff of our variable annuity products.

*Provision (benefit) for income taxes.* The effective tax rate decreased to 19.4% for the year ended 2016 from 67.5% for the year ended 2015. The decrease in the effective tax rate was primarily attributable to tax favored investments in relation to pre-tax results in 2016 compared to 2015.

***2015 compared to 2014***

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

Adjusted operating income available to Genworth Financial, Inc. s common stockholders decreased primarily driven by our variable annuity products from lower account values due to policy surrenders, unfavorable equity market performance and unfavorable mortality in 2015.

***Revenues***

Net investment income increased predominantly driven by higher gains of \$5 million from limited partnerships in 2015.

Policy fees and other income decreased mainly attributable to lower account values in our variable annuity products in 2015.

***Benefits and expenses***

Benefits and other changes in policy reserves increased primarily attributable to unfavorable mortality and an increase in our GMWB reserves in our variable annuity products due to unfavorable equity market performance in 2015.

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Interest credited increased largely related to higher loan cash values in our corporate-owned life insurance products in 2015.

Acquisition and operating expenses, net of deferrals, decreased largely related to lower commissions in 2015 as a result of the runoff of our variable annuity products.

Amortization of deferred acquisition costs and intangibles decreased related to our variable annuity products principally attributable to lower account values and higher net investment losses, partially offset by less favorable unlockings of \$4 million in 2015.

*Provision (benefit) for income taxes.* The effective tax rate was 67.5% for the year ended December 31, 2015 and was primarily attributable to changes in tax favored investment benefits in relation to pre-tax results, true ups in 2014 and changes in the valuation allowance in 2014. The effective tax rate was not meaningful for the year ended December 31, 2014.

**Runoff selected operating performance measures****Variable annuity products**

The following table sets forth selected operating performance measures regarding our variable annuity products as of or for the dates indicated:

(Amounts in millions)	As of or for the years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Variable Annuities Income Distribution Series<sup>(1)</sup></b>							
Account value, beginning of period	\$ 4,942	\$ 5,666	\$ 6,061	\$ (724)	(13)%	\$ (395)	(7)%
Deposits	22	33	50	(11)	(33)%	(17)	(34)%
Surrenders, benefits and product charges	(570)	(699)	(820)	129	18%	121	15%
Net flows	(548)	(666)	(770)	118	18%	104	14%
Interest credited and investment performance	187	(58)	375	245	NM <sup>(2)</sup>	(433)	(115)%
Account value, end of period	\$ 4,581	\$ 4,942	\$ 5,666	\$ (361)	(7)%	\$ (724)	(13)%
<b>Traditional Variable Annuities</b>							
Account value, net of reinsurance, beginning of period	\$ 1,241	\$ 1,455	\$ 1,643	\$ (214)	(15)%	\$ (188)	(11)%
Deposits	8	9	10	(1)	(11)%	(1)	(10)%
Surrenders, benefits and product charges	(198)	(259)	(309)	61	24%	50	16%
Net flows	(190)	(250)	(299)	60	24%	49	16%
Interest credited and investment performance	116	36	111	80	NM <sup>(2)</sup>	(75)	(68)%
	\$ 1,167	\$ 1,241	\$ 1,455	\$ (74)	(6)%	\$ (214)	(15)%



Account value, net of reinsurance, end of period

**Variable Life Insurance**

Account value, beginning of period	\$ 291	\$ 313	\$ 316	\$ (22)	(7)%	\$ (3)	(1)%
Deposits	7	8	8	(1)	(13)%		%
Surrenders, benefits and product charges	(33)	(38)	(38)	5	13%		%
Net flows	(26)	(30)	(30)	4	13%		%
Interest credited and investment performance	18	8	27	10	125%	(19)	(70)%
Account value, end of period	\$ 283	\$ 291	\$ 313	\$ (8)	(3)%	\$ (22)	(7)%

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

**Table of Contents*****2016 compared to 2015****Variable Annuities Income Distribution Series*

Account value related to our Income Distribution Series products decreased 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 decrease in account value 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.

***2015 compared to 2014****Variable Annuities Income Distribution Series*

Account value related to our Income Distribution Series products decreased primarily related to surrenders and unfavorable equity market performance in 2015. 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 decrease in account value was primarily the result of surrenders and unfavorable equity market performance in 2015. 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 years ended December 31,			Increase (decrease) and percentage change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
<b>GICs, FABNs and Funding Agreements</b>					

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Account value, beginning of period	\$ 410	\$ 493	\$ 896	\$ (83)	(17)%	\$ (403)	(45)%
Deposits	254			254	NM <sup>(1)</sup>		%
Surrenders and benefits	(110)	(86)	(408)	(24)	(28)%	322	79%
Net flows	144	(86)	(408)	230	NM <sup>(1)</sup>	322	79%
Interest credited	6	3	5	3	100%	(2)	(40)%
Account value, end of period	\$ 560	\$ 410	\$ 493	\$ 150	37%	\$ (83)	(17)%

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

**Table of Contents****2016 compared to 2015**

Account value related to our institutional products increased mainly attributable to higher deposits as a result of issuing funding agreements for asset-liability management and yield enhancement outpacing scheduled maturities of these products in 2016.

**2015 compared to 2014**

Account value related to our institutional products decreased mainly attributable to scheduled maturities of these products.

**Corporate and Other Activities****Results of operations**

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

(Amounts in millions)	Years ended December 31,			Increase (decrease) and percentage change			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
<b>Revenues:</b>							
Premiums	\$ 12	\$ 25	\$ 29	\$ (13)	(52)%	\$ (4)	(14)%
Net investment income	3	(3)	(10)	6	200%	7	(70)%
Net investment gains (losses)	(87)	29	2	(116)	NM <sup>(1)</sup>	27	NM <sup>(1)</sup>
Policy fees and other income	78	(10)	1	88	NM <sup>(1)</sup>	(11)	NM <sup>(1)</sup>
Total revenues	6	41	22	(35)	(85)%	19	86%
<b>Benefits and expenses:</b>							
Benefits and other changes in policy reserves	4	14	24	(10)	(71)%	(10)	(42)%
Acquisition and operating expenses, net of deferrals	217	230	69	(13)	(6)%	161	NM <sup>(1)</sup>
Amortization of deferred acquisition costs and intangibles	1	1	3		%	(2)	(67)%
Interest expense	270	298	314	(28)	(9)%	(16)	(5)%
Total benefits and expenses	492	543	410	(51)	(9)%	133	32%
<b>Loss from continuing operations before income taxes</b>							
Loss from continuing operations before income taxes	(486)	(502)	(388)	16	3%	(114)	(29)%
Provision (benefit) for income taxes	114	(130)	(93)	244	188%	(37)	(40)%
<b>Loss from continuing operations available to Genworth Financial, Inc.'s common stockholders</b>							
Loss from continuing operations available to Genworth Financial, Inc.'s common stockholders	(600)	(372)	(295)	(228)	(61)%	(77)	(26)%

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Adjustments to loss from continuing operations available to Genworth Financial, Inc.'s common stockholders:

Net investment (gains) losses, net	87	(29)	(2)	116	NM <sup>(1)</sup>	(27)	NM <sup>(1)</sup>
(Gains) losses on sale of businesses, net	(2)	140		(142)	(101)%	140	NM <sup>(1)</sup>
(Gains) losses on early extinguishment of debt, net	(48)	1		(49)	NM <sup>(1)</sup>	1	NM <sup>(1)</sup>
Expenses related to restructuring, net	2	3		(1)	(33)%	3	NM <sup>(1)</sup>
Tax impact from potential business portfolio changes			31		%	(31)	(100)%
Fees associated with bond solicitation	18			18	NM <sup>(1)</sup>		%
Taxes on adjustments	(44)	9		(53)	NM <sup>(1)</sup>	9	NM <sup>(1)</sup>

Adjusted operating loss available to Genworth Financial, Inc.'s common stockholders	\$ (587)	\$ (248)	\$ (266)	\$ (339)	(137)%	\$ 18	7%
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<sup>(1)</sup> We define NM as not meaningful for increases or decreases greater than 200%.

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### ***2016 compared to 2015***

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

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders increased mainly as a result of tax charges of \$258 million and additional legal fees and expenses of \$70 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 income increased related to the elimination of affiliate preferred stock dividends of approximately \$8 million in 2015 that did not recur.

Net investment losses in 2016 were primarily related to a \$64 million loss from the write-off of our residual interest in certain policy loan securitization entities as well as net realized losses from the sale of investment securities and derivative losses. Net investment gains in 2015 were primarily related to derivative gains and net realized gains from the sale of investment securities.

Policy fees and other income in 2016 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 2015 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, decreased mainly driven by the \$140 million loss on the sale of our mortgage insurance business in Europe recorded in the fourth quarter of 2015, partially offset 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 2016. 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 was also partially offset by an additional loss of \$9 million related to the sale of our mortgage insurance business in Europe in 2016.

Interest expense decreased largely driven by the redemption of \$298 million of Genworth Holdings senior notes in January 2016.

The income tax provision was largely attributable to a valuation allowance of \$258 million recorded on deferred tax assets in 2016. 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 proposed 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 the reversal of a deferred tax valuation allowance established on a specific capital loss and the proportion of lower foreign income to pre-tax loss in 2016 compared to 2015.

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### ***2015 compared to 2014***

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

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders decreased primarily attributable to higher tax benefits and lower interest expense, partially offset by higher operating expenses and losses from non-functional currency transactions in 2015.

#### ***Revenues***

Premiums decreased primarily related to our European mortgage insurance business as a result of a \$4 million decrease attributable to changes in foreign exchange rates in 2015.

Net investment income increased from affiliate preferred stock dividends of approximately \$8 million in 2015 that were previously included in the U.S. Mortgage Insurance segment.

Net investment gains increased mainly driven by derivative gains in 2015.

Policy fees and other income decreased mainly as a result of losses in 2015 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 primarily related to our European mortgage insurance business driven by lower new delinquencies and improved aging on our existing delinquencies, partially offset by lower cures in 2015 mainly attributable to a lender settlement in the fourth quarter of 2014. The year ended December 31, 2015 included a \$3 million decrease attributable to changes in foreign exchange rates in 2015.

Acquisition and operating expenses, net of deferrals, increased mainly from an estimated loss on sale related to our mortgage insurance business in Europe of \$140 million recorded in the fourth quarter of 2015 and higher legal accruals and expenses of \$30 million in 2015. These increases were partially offset by lower net expenses after allocations to our operating segments in 2015.

Interest expense decreased largely driven by the repayment of \$485 million of senior notes in June 2014.

The increase in the income tax benefit was primarily attributable to changes in our uncertain tax positions, partially offset by stock-based compensation expense in 2015.

## **Investments and Derivative Instruments**

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

#### ***Investments credit and investment markets***

U.S. Treasury yields rose by as much as 40 basis points in response to the U.S. Presidential election and continued to rise steadily for the remainder of the fourth quarter of 2016, further supported by a 25 basis point hike in the Federal Reserve policy rate. The shift towards higher U.S. Treasury yields also reflected expectations for a faster pace of interest rate increases by the Federal Reserve, underpinned by rising inflation expectations. Global yields followed the



U.S. bond markets higher and equity markets rose, particularly in the U.S., founded on expectations of robust fiscal stimulus coupled with business oriented economic policy changes leading global economic growth higher. At the same time, growth prospects also improved the outlook and the demand for credit products and credit spreads tightened steadily, dampening the overall rise in yields. Overall, both U.S. and most global rates ended higher in 2016 compared to the first half of the year as a result of the fourth quarter of 2016 activity described above but were lower on average versus 2015.

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As of December 31, 2016, our fixed maturities securities portfolio, which was 96% investment grade, comprised 81% of our total investment portfolio. Our \$3.6 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 December 31, 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 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 December 31, 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 December 31, 2016, we posted initial margin of \$414 million to our clearing agents, which represented approximately \$101 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 December 31, 2016, \$6.4 billion notional of our derivatives portfolio was in bilateral OTC derivatives transactions pursuant to which we have posted aggregate independent amounts of \$300 million and are holding collateral from counterparties in the amount of \$75 million. We have notional of \$974 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 restructured 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 include 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 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.

**Table of Contents****Investment results**

The following table sets forth information about our investment income, excluding net investment gains (losses), for each component of our investment portfolio for the years ended December 31:

(Amounts in millions)	Years ended December 31,						Increase (decrease)			
	2016		2015		2014		2016 vs. 2015		2015 vs. 2014	
	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Fixed maturity securities taxable	4.6%	\$ 2,565	4.6%	\$ 2,558	4.7%	\$ 2,598	%	\$ 7	(0.1)%	\$ (40)
Fixed maturity securities non-taxable	3.6%	12	3.5%	12	3.5%	12	0.1%		%	
Commercial mortgage loans	5.2%	318	5.5%	337	5.6%	333	(0.3)%	(19)	(0.1)%	4
Restricted commercial mortgage loans related to securitization entities <sup>(1)</sup>	7.1%	10	8.0%	14	6.6%	14	(0.9)%	(4)	1.4%	
Equity securities	5.6%	28	5.2%	15	5.0%	14	0.4%	13	0.2%	1
Other invested assets	25.3%	141	24.7%	135	20.3%	105	0.6%	6	4.4%	30
Restricted other invested assets related to securitization entities <sup>(1)</sup>	0.9%	3	1.3%	5	1.3%	5	(0.4)%	(2)	%	
Policy loans	8.7%	146	8.9%	137	8.7%	129	(0.2)%	9	0.2%	8
Cash, cash equivalents and short-term investments	0.5%	20	0.3%	13	0.6%	24	0.2%	7	(0.3)%	(11)
Gross investment income before expenses and fees	4.6%	3,243	4.6%	3,226	4.7%	3,234	%	17	(0.1)%	(8)
Expenses and fees	(0.1)%	(84)	(0.1)%	(88)	(0.1)%	(92)	%	4	%	4
Net investment income	4.5%	\$ 3,159	4.5%	\$ 3,138	4.6%	\$ 3,142	%	\$ 21	(0.1)%	\$ (4)
Average invested assets and cash		\$ 69,774		\$ 69,976		\$ 68,498		\$ (202)		\$ 1,478

<sup>(1)</sup> See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

Yields are based on net investment income as reported under U.S. GAAP and are consistent with how we measure our investment performance for management purposes. Yields are annualized, for interim periods, and are calculated as net investment income as a percentage of average quarterly asset carrying values except for fixed maturity 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.

The annualized weighted-average investment yields remained unchanged from 2015 as lower reinvestment yields and variable income were offset by higher average invested assets in our long-term care insurance business. Net investment income reflected \$20 million of lower gains related to limited partnerships and \$10 million of lower gains related to bond calls and mortgage prepayments, partially offset by \$13 million of higher income related to inflation-driven volatility on recent TIPS purchases as compared to 2015 and \$5 million of lower unfavorable prepayment speed adjustments on structured securities. The year ended December 31, 2016 included a decrease of \$10 million attributable to changes in foreign exchange rates.

The decrease in overall weighted-average investment yields in 2015 was primarily attributable to lower reinvestment yields on higher average invested assets and lower gains of \$3 million related to limited partnerships in 2015. These decreases were partially offset by higher gains of \$9 million related to bond calls and mortgage prepayments and a \$7 million lower unfavorable prepayment speed adjustment on structured securities in 2015. The year ended December 31, 2015 included a decrease of \$43 million attributable to changes in foreign exchange rates.

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The following table sets forth net investment gains (losses) for the years ended December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Available-for-sale securities:</b>			
Realized gains	\$ 249	\$ 102	\$ 72
Realized losses	(121)	(82)	(46)
Net realized gains (losses) on available-for-sale securities	128	20	26
<b>Impairments:</b>			
Total other-than-temporary impairments	(40)	(28)	(9)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		1	
Net other-than-temporary impairments	(40)	(27)	(9)
Trading securities	10	(7)	39
Commercial mortgage loans	1	7	11
Net gains (losses) related to securitization entities <sup>(1)</sup>	(50)	5	16
Derivative instruments	20	(76)	(103)
Contingent consideration adjustment	(2)	2	(2)
Other	5	1	
Net investment gains (losses)	\$ 72	\$ (75)	\$ (22)

<sup>(1)</sup> See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

**2016 compared to 2015**

We recorded \$13 million of higher net other-than-temporary impairments in 2016. During 2016 and 2015, we recorded impairments of \$24 million and \$21 million, respectively, related to corporate securities. Of the total impairments recorded in 2016, \$7 million related to equity securities and \$3 million related to limited partnerships. We recorded impairments of \$4 million in each year related to commercial mortgage loans.

Net investment gains related to derivatives of \$20 million in 2016 were primarily associated with various hedging programs that support our Canada Mortgage Insurance segment and gains associated with hedging programs for our indexed universal life insurance products. These gains were partially offset by losses related to hedging programs for our runoff variable annuity products.

Net investment losses related to derivatives of \$76 million in 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 hedging programs for our fixed indexed annuity products. These losses were partially offset by gains related to derivatives to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and gains from amounts reclassified from other comprehensive income (loss) due to sales of previously hedged bond purchases.

We recorded \$108 million of higher net gains related to the sale of available-for-sale securities in 2016 primarily related to \$130 million of gains from the sale of TIPS. During 2016, we also recorded \$10 million of gains related to trading securities compared to \$7 million of losses in 2015 resulting from changes in the long-term interest rate environment. We recorded \$50 million of losses related to securitization entities in 2016 primarily related to a \$64 million loss from the write-off of our residual interest in certain policy loan securitization entities in 2016 compared to \$5 million of gains in 2015.

**Table of Contents****2015 compared to 2014**

We recorded \$18 million of higher net other-than-temporary impairments in 2015. Total impairments included \$21 million related to corporate securities and \$2 million related to other asset-backed securities in 2015. During 2015 and 2014, we recorded impairments of \$4 million and \$3 million, respectively, related to commercial mortgage loans. Impairments related to financial hybrid securities as a result of certain banks being downgraded to below investment grade were \$4 million in 2014.

Net investment losses related to derivatives of \$76 million in 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 hedging programs for our fixed indexed annuity products. These losses were partially offset by gains related to derivatives to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and gains from amounts reclassified from other comprehensive income (loss) due to sales of previously hedged bond purchases.

Net investment losses related to derivatives of \$103 million in 2014 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 proceeds from the IPO of our Australian mortgage insurance business and losses related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions. These losses were partially offset by 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. We also had gains related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries.

During 2015, we recorded \$7 million of losses related to trading securities compared to \$39 million of gains in 2014 resulting from changes in the long-term interest rate environment. We recorded \$11 million of lower net gains related to securitization entities in 2015 primarily due to losses on trading securities in 2015 compared to gains in 2014 and lower gains on derivatives in 2015. We recorded lower net gains of \$6 million related to the sale of available-for-sale securities in 2015.

**Investment portfolio**

The following table sets forth our cash, cash equivalents and invested assets as of December 31:

(Amounts in millions)	2016		2015	
	Carrying value	% of total	Carrying value	% of total
Fixed maturity securities, available-for-sale:				
Public	\$ 45,131	61%	\$ 43,136	58%
Private	15,441	21	15,061	20
Commercial mortgage loans	6,111	8	6,170	8

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Other invested assets	2,071	3	2,309	3
Policy loans	1,742	2	1,568	2
Restricted other invested assets related to securitization entities <sup>(1)</sup>	312		413	1
Equity securities, available-for-sale	632	1	310	
Restricted commercial mortgage loans related to securitization entities <sup>(1)</sup>	129		161	
Cash and cash equivalents	2,784	4	5,965	8
<b>Total cash, cash equivalents and invested assets</b>	<b>\$ 74,353</b>	<b>100%</b>	<b>\$ 75,093</b>	<b>100%</b>

<sup>(1)</sup> See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.



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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 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data 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 December 31, 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 16 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to fair value.

*Fixed maturity and equity securities*

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	
<b>Fixed maturity securities:</b>					
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 <sup>(1)</sup>	2,024	101		(18)	2,107
<b>U.S. corporate:</b>					
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 <sup>(1)</sup>	24,943	2,124		(239)	26,828
<b>Non-U.S. corporate:</b>					
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

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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	
Total non-U.S. corporate <sup>(1)</sup>	11,717	669	(91)	12,295	
Residential mortgage-backed <sup>(2)</sup>	4,122	259	10	(12)	4,379
Commercial mortgage-backed	3,084	98	3	(56)	3,129
Other asset-backed <sup>(2)</sup>	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

(1) Fair value included European periphery exposure of \$447 million in Ireland, \$231 million in Spain, \$95 million in Italy and \$16 million in Portugal.

(2) Fair value included \$43 million collateralized by Alt-A residential mortgage loans and \$26 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:

(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	
<b>Fixed maturity securities:</b>					
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 <sup>(1)</sup>	1,910	110		(5)	2,015
<b>U.S. corporate:</b>					
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 <sup>(1)</sup>	22,994	1,786	15	(394)	24,401
<b>Non-U.S. corporate:</b>					
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 <sup>(1)</sup>	11,886	598	2	(287)	12,199
Residential mortgage-backed <sup>(2)</sup>	4,777	330	11	(17)	5,101
Commercial mortgage-backed	2,492	84	3	(20)	2,559
Other asset-backed <sup>(2)</sup>	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 \$32 million collateralized by sub-prime residential mortgage loans and \$69 million collateralized by Alt-A residential mortgage loans.

Fixed maturity securities increased \$2.4 billion principally from purchases exceeding sales and maturities and from higher net unrealized gains attributable to the changes in interest rates in 2016.

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 2016, we increased our exposure to the peripheral European countries by \$66 million to \$789 million with unrealized gains of \$41million. As of

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December 31, 2016, our exposure was diversified with direct exposure to local economies of \$167 million, indirect exposure through debt issued by subsidiaries outside of the European periphery of \$118 million and exposure to multi-national companies where the majority of revenues come from outside of the country of domicile of \$504 million.

*Commercial mortgage loans*

The following tables set forth additional information regarding our commercial mortgage loans as of December 31:

(Dollar amounts in millions)	2016			Delinquent principal balance	Number of delinquent loans
	Total recorded investment	Number of loans	Loan-to-value <sup>(1)</sup>		
<b>Loan Year</b>					
2004 and prior	\$ 521	304	31%	\$	
2005	469	135	43%		
2006	434	105	52%	15	1
2007	452	126	54%	1	1
2008	135	25	54%		
2009			%		
2010	89	17	48%		
2011	215	47	47%		
2012	588	88	52%		
2013	781	136	54%		
2014	892	147	61%		
2015	932	143	65%		
2016	617	100	69%		
<b>Total</b>	<b>\$ 6,125</b>	<b>1,373</b>	<b>55%</b>	<b>\$ 16</b>	<b>2</b>

<sup>(1)</sup> Represents weighted-average loan-to-value as of December 31, 2016.

(Dollar amounts in millions)	2015			Delinquent principal balance	Number of delinquent loans
	Total recorded investment	Number of loans	Loan-to-value <sup>(1)</sup>		
<b>Loan Year</b>					
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			%		

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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.

**Table of Contents***Restricted commercial mortgage loans related to securitization entities*

See notes 4 and 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to restricted commercial mortgage loans related to securitization entities.

*Other invested assets*

The following table sets forth the carrying values of our other invested assets as of December 31:

(Amounts in millions)	2016		2015	
	Carrying value	% of total	Carrying value	% of total
Derivatives	\$ 708	34%	\$ 1,112	48%
Trading securities	259	13	447	19
Securities lending collateral	534	25	347	15
Short-term investments	352	17	197	9
Limited partnerships	199	10	188	8
Other investments	19	1	18	1
<b>Total other invested assets</b>	<b>\$ 2,071</b>	<b>100%</b>	<b>\$ 2,309</b>	<b>100%</b>

Derivatives decreased primarily attributable to changes in the long-term interest rate environment and from early terminations in 2016. Our investments in trading securities decreased from higher net sales. Securities lending collateral increased driven by market demand. Short-term investments increased principally from purchases exceeding sales and maturities in 2016.

*Derivatives*

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	December 31, 2016
<b>Derivatives designated as hedges</b>					
Cash flow hedges:					
Interest rate swaps	Notional	\$ 11,214	\$ 9,991	\$ (9,635)	\$ 11,570
Inflation indexed swaps	Notional	571	1	(572)	
Foreign currency swaps	Notional	35		(13)	22
Total cash flow hedges		11,820	9,992	(10,220)	11,592
Total derivatives designated as hedges		11,820	9,992	(10,220)	11,592

**Derivatives not designated as hedges**

Interest rate swaps	Notional	4,932		(253)	4,679
Interest rate swaps related to securitization entities <sup>(1)</sup>	Notional	67		(67)	
Foreign currency swaps	Notional	162	146	(107)	201
Credit default swaps	Notional	144		(105)	39
Credit default swaps related to securitization entities <sup>(1)</sup>	Notional	312			312
Equity index options	Notional	1,080	3,272	(1,956)	2,396
Financial futures	Notional	1,331	6,891	(6,824)	1,398
Equity return swaps	Notional	134	364	(333)	165
Other foreign currency contracts	Notional	1,656	3,478	(2,004)	3,130
Total derivatives not designated as hedges		9,818	14,151	(11,649)	12,320
Total derivatives		\$ 21,638	\$ 24,143	\$ (21,869)	\$ 23,912

<sup>(1)</sup> See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.



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(Number of policies)	Measurement	December 31, 2015	Additions	Maturities/ terminations	December 31, 2016
<b>Derivatives not designated as hedges</b>					
GMWB embedded derivatives	Policies	36,146		(2,908)	33,238
Fixed index annuity embedded derivatives	Policies	17,482	666	(599)	17,549
Indexed universal life embedded derivatives	Policies	982	167	(75)	1,074

The increase of \$2.3 billion in the notional value of derivatives was attributable to an increase in our non-qualified equity options related to our hedging strategy associated with fixed index annuity insurance products and our non-qualified foreign currency interest rate swaps.

The number of policies related to our GMWB embedded derivatives decreased as variable annuity products are no longer being offered.

**Consolidated Balance Sheets**

*Total assets.* Total assets decreased \$1,773 million from \$106,431 million as of December 31, 2015 to \$104,658 million as of December 31, 2016.

Cash, cash equivalents and invested assets decreased \$740 million primarily from a decrease of \$3,181 million in cash and cash equivalents, partially offset by an increase of \$2,441 million in invested assets. Cash and cash equivalents decreased largely from the purchases of investments and the redemption of non-recourse funding obligations and long-term borrowings in 2016. Our fixed maturity securities increased \$2,375 million principally from purchases exceeding proceeds from maturities and sales and an increase in unrealized investment gains attributable to changes in interest rates in 2016. Equity securities increased \$322 million mainly from an increase in net trading activity in 2016.

Deferred acquisition costs decreased \$827 million primarily related to higher net unrealized investment gains, including \$439 million related to the deterioration of the loss recognition testing margin of our long-term care insurance block, excluding the acquired block, in 2016. The decrease was also attributable to higher amortization of \$144 million in our universal and term universal life insurance products related to our annual review of assumptions in the fourth quarter of 2016, reflecting updated assumptions primarily for mortality experience in older age populations, partially offset by updated assumptions related to future policy charges.

Reinsurance recoverable increased \$510 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, which was approximately \$64 million as of December 31, 2016. In addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance reinsurance recoverables by \$222 million in the fourth quarter of 2016.

Deferred tax asset decreased \$155 million primarily from an increase in the valuation allowance in 2016.

Separate account assets decreased \$584 million principally driven by surrenders and benefits in the account values of our runoff block of variable annuity products in 2016.

*Total liabilities.* Total liabilities decreased \$1,603 million from \$91,794 million as of December 31, 2015 to \$90,191 million as of December 31, 2016.

Future policy benefits increased \$588 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 2016.

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Policyholder account balances decreased \$547 million largely as a result of surrenders in our fixed annuities business, partially offset by higher reserves of \$202 million in our universal and term universal life insurance products related to our annual review of assumptions in the fourth quarter of 2016, reflecting updated assumptions primarily for mortality experience in older age populations.

Liability for policy and contract claims increased \$1,161 million mainly attributable to an increase of \$1,285 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. The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in 2016. In addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance claim reserves by \$222 million in the fourth quarter of 2016. These increases were partially offset by a decrease of \$214 million in our U.S. mortgage insurance business principally from a decline in new delinquencies and favorable aging on existing delinquencies in 2016.

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 2016.

Long-term borrowings decreased \$390 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 2021 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 \$8 million from changes in foreign exchange rates on debt in Canada and Australia.

Separate account liabilities decreased \$584 million principally driven by surrenders in the account values of our runoff block of variable annuity products in 2016.

*Total equity.* Total equity decreased \$170 million from \$14,637 million as of December 31, 2015 to \$14,467 million as of December 31, 2016.

We reported a net loss available to Genworth Financial, Inc.'s common stockholders of \$277 million during the year ended December 31, 2016.

Accumulated other comprehensive income (loss) increased \$84 million predominantly attributable to \$40 million of higher derivatives qualifying as hedges driven mostly by changes in long-term interests and from an increase of \$36 million in foreign currency translation and other adjustments principally from the recognition of currency translation adjustments related to the sale of our European mortgage insurance business in 2016.

**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.

**Table of Contents***Genworth and subsidiaries*

The following table sets forth our condensed consolidated cash flows for the years ended December 31:

<b>(Amounts in millions)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net cash from operating activities	\$ 1,852	\$ 1,591	\$ 2,438
Net cash from investing activities	(2,120)	(404)	(1,836)
Net cash from financing activities	(2,931)	(42)	205
Net increase (decrease) in cash before foreign exchange effect	\$ (3,199)	\$ 1,145	\$ 807

Our principal sources of cash include sales of our products and services, income from our investment portfolio and proceeds from sales of investments. As an insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed policy acquisition costs, benefits paid, redemptions and operating expenses. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. Positive cash flows from operating activities are then invested to support the obligations of our insurance and investment products and required capital supporting these products. In analyzing our cash flow, we focus on the change in the amount of cash available and used in investing activities. Changes in cash from financing activities primarily relate to the issuance of, and redemptions and benefit payments on, universal life insurance and investment contracts; the issuance and acquisition of debt and equity securities; the issuance and repayment or repurchase of borrowings and non-recourse funding obligations; and other capital transactions.

We had higher cash inflows from operating activities in 2016 mainly attributable to net proceeds from the sale of trading securities and cash received as a result of the change in the derivative positions in 2016. 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 higher cash outflows from investing activities in 2016 primarily as the result of higher purchases in excess of maturities and sales of fixed maturity securities and the purchase of policy loans. This outflow was partially offset by 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 2016 compared to net originations in 2015.

We had higher cash outflows from financing activities in 2016 principally 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 2016. Cash outflows from financing activities were also as a result of withdrawals exceeding deposits of our investment contracts in 2016. Included in 2015 were proceeds from the sale of additional shares of our Australian mortgage insurance business.

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 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to our securities lending program.

We also have a repurchase program in which we sell an investment security at a specified price and agree to repurchase that security at another specified price at a later date. See note 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to our repurchase program.

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**Table of Contents***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 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 \$998 million and \$1,124 million of cash and cash equivalents as of December 31, 2016 and 2015, respectively. Genworth Holdings also held \$100 million and \$250 million in U.S. government securities as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, cash and cash equivalents of Genworth Holdings included approximately \$85 million and \$89 million of restricted assets, which consist primarily of U.S. government securities and cash.

During the years ended December 31, 2016, 2015 and 2014, Genworth Holdings received cash dividends from its international subsidiaries of \$250 million, \$522 million and \$630 million, respectively. 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. Dividends from our international subsidiaries in 2015 included \$173 million of proceeds from the sale of additional shares in our Australian mortgage insurance business in May 2015 and approximately \$50 million of the remaining proceeds were distributed to Genworth Holdings through payments made under tax sharing agreements in the third quarter of 2015. Dividends from our international subsidiaries in 2014 included approximately \$500 million from the net proceeds of the IPO of our Australian mortgage insurance business. There were no dividends paid to Genworth Holdings by its domestic subsidiaries during the years ended December 31, 2016, 2015 or 2014. We expect our international subsidiaries to be the sole source of cash dividends

paid to us in 2017 as we continue to strengthen the capital position of our U.S. mortgage insurance business. We do not expect our U.S. life insurance businesses to provide dividends to our holding companies in the foreseeable future.



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Genworth Holdings also made capital contributions to one of its life subsidiaries of \$25 million during 2015. In December 2015, Genworth Holdings also received cash of approximately \$325 million of proceeds from the sale of the lifestyle protection insurance business through intercompany payments.

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 as part of any restructuring plan for our U.S. life insurance businesses.

In July 2015, Genworth Holdings purchased for approximately \$200 million preferred securities of one of our life insurance subsidiaries that were previously held by our U.S. mortgage insurance subsidiaries. Genworth Holdings received dividends of approximately \$8 million from these preferred securities in 2015. Beginning in 2016, these preferred stock dividends were deferred.

Genworth Holdings provides capital support to some of its insurance subsidiaries in the form of guarantees of certain obligations, in some cases subject to annual scheduled adjustments, which totaled up to \$356 million as of December 31, 2016. We believe Genworth Holdings' insurance subsidiaries have adequate reserves to cover the underlying obligations. This capital support primarily included:

A capital support agreement of up to \$218 million with one of Genworth Holdings' insurance subsidiaries to fund claims to support its mortgage insurance business in Mexico;

A capital support agreement of up to \$100 million, as part of the capital plan for the U.S. mortgage insurance subsidiaries, to be provided to GMICO in the future in the event that certain adverse events occur. This capital support agreement was terminated in January 2017.

Genworth Holdings provides a limited guarantee to Rivermont Life Insurance Company I ( Rivermont I ), an indirect subsidiary, which is accounted for as a derivative carried at fair value and is eliminated in consolidation. As of December 31, 2016, the fair value of this derivative was approximately \$1 million.

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 December 31, 2016, the risk in-force of the business subject to the guarantee was approximately \$2.0 billion.

Genworth Holdings has a Tax Matters Agreement with GE, our former parent company, which represents an obligation of Genworth Holdings to GE. The balance of this obligation was \$173 million as of December 31, 2016.

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 Financial also provides a full and unconditional guarantee of Genworth Holdings obligations associated with Rivermont I and the Tax Matters Agreement.

We also provided guarantees to third parties for the performance of certain obligations of our subsidiaries. We estimate that our potential obligations under such guarantees were \$9 million and \$25 million as of December 31, 2016 and 2015, respectively.

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**Table of Contents***Regulated insurance subsidiaries*

Insurance laws and regulations regulate the payment of dividends and other distributions to us by our insurance subsidiaries. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. Based on estimated statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately \$220 million to us in 2017 without obtaining regulatory approval. However, our insurance subsidiaries may not pay dividends to us in 2017 at this level if they need to retain capital for growth and to meet capital requirements.

Our international insurance subsidiaries paid dividends of \$457 million, \$640 million and \$630 million during the years ended December 31, 2016, 2015 and 2014, respectively.

Our domestic insurance subsidiaries paid dividends of \$80 million, \$41 million and \$108 million, respectively, during the years ended December 31, 2016, 2015 and 2014. None of the dividends paid were deemed extraordinary. All such amounts were paid to our principal life insurance subsidiaries rather than to a holding company. In addition, GLIC paid a preferred stock dividend of approximately \$8 million to Genworth Holdings in 2015.

The liquidity requirements of our regulated insurance subsidiaries principally relate to the liabilities associated with their various insurance and investment products, operating costs and expenses, the payment of dividends to us, contributions to their subsidiaries, payment of principal and interest on their outstanding debt obligations and income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans and obligations to redeem funding agreements.

Our insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. Our insurance subsidiaries' principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income, including commissions, cost of insurance, mortality, expense and surrender charges, contract underwriting fees, investment management fees and dividends and distributions from their subsidiaries. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance and long-term care insurance policies, are matched with investments having similar duration such as long-term fixed maturity securities and commercial mortgage loans. Shorter-term liabilities are matched with fixed maturity securities that have short- and medium-term fixed maturities. In addition, our insurance subsidiaries hold highly liquid, high quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals. As of December 31, 2016, our total cash, cash equivalents and invested assets were \$74.4 billion. Our investments in privately placed fixed maturity securities, commercial mortgage loans, policy loans, limited partnership investments and select mortgage-backed and asset-backed securities are relatively illiquid. These asset classes represented approximately 32% of the carrying value of our total cash, cash equivalents and invested assets as of December 31, 2016.

As of December 31, 2016, each of our life insurance subsidiaries exceeded the minimum required RBC levels. The consolidated RBC ratio of our U.S. domiciled life insurance subsidiaries was approximately 329% as of December 31, 2016.

To address the capital needs of our U.S. life insurance businesses, we currently intend to continue, among other things, to not pay dividends from our life insurance subsidiaries to the holding company.

As of December 31, 2016 and 2015, one of our wholly-owned life insurance subsidiaries provided security in an aggregate amount of \$28 million and \$583 million, respectively, for the benefit of certain of its wholly-

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owned life insurance subsidiaries that have issued non-recourse funding obligations to collateralize the obligation to make future payments on their behalf under certain tax sharing agreements.

In April 2016, Genworth Canada announced acceptance by the TSX 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. In 2015, Genworth Canada repurchased 1.4 million of its shares for CAD\$50 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage and received \$23 million in cash. During 2014, Genworth Canada repurchased 1.9 million shares for CAD\$75 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage at its then current level and received \$38 million in cash.

On October 30, 2015, Genworth Australia announced its intention to commence an on-market share buy-back program. Pursuant to the program, in November and December 2015, Genworth Australia repurchased 54.6 million of its shares for AUD\$150 million. As the majority shareholder, we participated in on-market sales transactions during the buy-back period to maintain our ownership position of 52.0% and received \$55 million in cash.

As of December 31, 2016 and 2015, our U.S. mortgage insurance business was compliant with the PMIERS capital requirements, with a prudent buffer. 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 \$530 million of PMIERS capital credit as of December 31, 2016. Our U.S. mortgage insurance business may execute future capital transactions to maintain a prudent level of financial flexibility in excess of the PMIERS capital requirements given the dynamic nature of asset and requirement valuations over time, including additional reinsurance transactions and contributions of holding company cash.

*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 December 31, 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 2021 maturity dates for a pre-tax gain of \$4 million and paid accrued and unpaid interest thereon. During the third quarter of 2015, Genworth Holdings repurchased \$50 million aggregate principal amount of its senior notes for a pre-tax loss of \$1 million and paid accrued and unpaid interest thereon.

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. In July 2015, Genworth Financial Mortgage Insurance Pty Limited, our indirect majority-owned subsidiary, issued AUD\$200 million of subordinated floating rate notes due 2025 with an interest rate of three-month Bank Bill Swap reference rate plus

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a margin of 3.50%. Genworth Financial Mortgage Insurance Pty Limited used the proceeds it received from this transaction to redeem AUD\$90 million of its outstanding debt and for general corporate purposes and incurred a \$2 million pre-tax early redemption payment.

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. During 2015, River Lake repaid \$30 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake II repaid \$31 million of its total outstanding floating rate subordinated notes due in 2035.

For further information about our borrowings, refer to note 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

We believe existing cash held at Genworth Holdings combined with dividends from operating subsidiaries, payments under tax sharing and expense reimbursement arrangements with subsidiaries, proceeds from borrowings or securities issuances and, if necessary, sales of assets, as described below, will provide us with sufficient capital flexibility and liquidity to meet our projected future operating and financing requirements. We actively monitor our liquidity position, liquidity generation options and the credit markets given changing market conditions. 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 December 31, 2016, Genworth Holdings was above this target due in part to intercompany tax payments of approximately \$300 million received from its subsidiaries in 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 Part I 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.

*Contractual obligations and commercial commitments*

We enter into obligations with third parties in the ordinary course of our operations. These obligations, as of December 31, 2016, are set forth in the table below. However, we do not believe that our cash flow requirements can be assessed based upon this analysis of these obligations as the funding of these future cash obligations will be from future cash flows from premiums, deposits, fees and investment income that are not reflected in the following table. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable rate borrowings and insurance liabilities that depend on future interest rates and

market performance. Many of our obligations are linked to cash-generating contracts. These obligations include payments to contractholders that assume those contractholders will continue to make deposits in accordance with the terms of their contracts. In addition, our operations involve significant expenditures that are not based upon commitments.



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(Amounts in millions)	Payments due by period				2022 and thereafter
	Total	2017	2018-2019	2020-2021	
Borrowings and interest <sup>(1)</sup>	\$ 7,221	\$ 267	\$ 1,072	\$ 2,060	\$ 3,822
Operating lease obligations	52	15	21	7	9
Other purchase liabilities <sup>(2)</sup>	56	36	19	1	
Securities lending and repurchase obligations <sup>(3)</sup>	609	609			
Commercial mortgage loan commitments <sup>(4)</sup>	39	39			
Limited partnership commitments <sup>(4)</sup>	201	72	75	51	3
Private placement commitments <sup>(4)</sup>	34	34			
Insurance liabilities <sup>(5)</sup>	125,005	3,108	5,006	4,699	112,192
Tax matters agreement <sup>(6)</sup>	164	43	61	29	31
Unrecognized tax benefits <sup>(7)</sup>	34	2			32
<b>Total contractual obligations</b>	<b>\$ 133,415</b>	<b>\$ 4,225</b>	<b>\$ 6,254</b>	<b>\$ 6,847</b>	<b>\$ 116,089</b>

(1) Includes payments of principal and interest on our long-term borrowings and non-recourse funding obligations, as described in note 12 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data. For our U.S. domiciled insurance companies, any payment of principal, including by redemption, or interest on our non-recourse funding obligations are subject to regulatory approval. The total amount for borrowings and interest in this table does not equal the amounts on our consolidated balance sheet as it excludes debt issuance costs and includes interest that is expected to be payable in future years. In addition, the total amount does not include borrowings related to securitization entities. See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for information related to the timing of payments and the maturity dates of these borrowings.

(2) Includes contractual purchase commitments for goods and services entered into in the ordinary course of business and includes obligations under our pension liabilities.

(3) The timing for the return of the collateral associated with our securities lending program is uncertain; therefore, the return of collateral is reflected as being due in 2017.

(4) Includes amounts we are committed to fund for U.S. commercial mortgage loans, interests in limited partnerships and private placement investments.

(5) Includes estimated claim and benefit, policy surrender and commission obligations offset by expected future deposits and premiums on in-force insurance policies and investment contracts. Also includes amounts established for recourse and indemnification related to our U.S. mortgage insurance contract underwriting business. Estimated claim and benefit obligations are based on mortality, morbidity, lapse and other assumptions. The obligations in this table have not been discounted at present value. In contrast to this table, our obligations reported in our consolidated balance sheet are recorded in accordance with U.S. GAAP where the liabilities are discounted consistent with the present value concept under accounting guidance related to accounting and reporting by insurance enterprises, as applicable. Therefore, the estimated obligations for insurance liabilities presented in this table significantly exceed the liabilities recorded in reserves for future policy benefits and the liability for policy and contract claims. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. We have not included separate account obligations as these obligations are legally insulated from general account obligations and will be fully funded by cash flows from separate account assets. We expect to fully fund the obligations for insurance liabilities from cash flows from general account investments and future deposits and premiums.

(6)

Because their future cash outflows are uncertain, the following non-current liabilities are excluded from this table: deferred taxes (except the Tax Matters Agreement, which is included, as described in note 13 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data ), derivatives, unearned premiums and certain other items.

- (7) Includes the settlement of uncertain tax positions, with related interest, based on the estimated timing of the resolution of income tax examinations in multiple jurisdictions. See notes 2 and 13 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for a discussion of uncertain tax positions.

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### **Off-Balance Sheet Transactions**

We have used off-balance sheet securitization transactions to mitigate and diversify our asset risk position and to adjust the asset class mix in our investment portfolio by reinvesting securitization proceeds in accordance with our approved investment guidelines. The transactions we have used involved securitizations of some of our receivables and investments that were secured by commercial mortgage loans, fixed maturity securities or other receivables, consisting primarily of policy loans. Total securitized assets remaining as of December 31, 2016 and 2015 were \$129 million and \$403 million, respectively, including \$129 million and \$267 million, respectively, of securitized assets required to be consolidated. Securitization transactions typically result in gains or losses that are included in net investment gains (losses) in our consolidated financial statements. There were no off-balance sheet securitization transactions executed in 2016, 2015 or 2014.

We have arranged for the assets that we have transferred in securitization transactions to be serviced by us directly, or pursuant to arrangements with a third-party service provider. Servicing activities include ongoing review, credit monitoring, reporting and collection activities.

Financial support for certain securitization entities was provided under credit support agreements that remain in place throughout the life of the related entities. Assets with credit support were funded by demand notes that were further enhanced with support provided by a third party. See note 17 to our consolidated financial statements under **Item 8 Financial Statements and Supplementary Data** for additional information related to securitization entities.

### **Seasonality**

In general, our business as a whole is not seasonal in nature. However, in our U.S. mortgage insurance business, the level of delinquencies, which increases the likelihood of losses, generally tends to decrease in mid-first quarter and continue through second quarter while increasing in the third and fourth quarters of the calendar year. Therefore, we typically experience lower levels of losses resulting from delinquencies in the first and second quarters, as compared with those in the third and fourth quarters. Currently, as the U.S. housing market continues to stabilize and recover, delinquency levels are trending downward and returning to more normal seasonal trends. As the U.S. economy continues recovering, we may see higher than usual delinquencies as the housing market returns to a more normal development pattern long-term. See **U.S. Mortgage Insurance segment Trends and conditions** for additional information related to our U.S. mortgage insurance business.

There is also modest delinquency seasonality in our mortgage insurance businesses in Australia and Canada. In Australia, we generally experience higher new delinquencies and lower cure rates in the first and second quarters of each calendar year. In Canada, we generally experience modestly higher delinquencies in the winter months. See **Canada Mortgage Insurance segment Trends and conditions** and **Australia Mortgage Insurance segment Trends and conditions** for additional information related to these businesses.

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### **Inflation**

We do not believe that inflation has had a material effect on our results of operations, except insofar as inflation may affect interest rates or foreign exchange rates.

### **New Accounting Standards**

For a discussion of recently adopted and not yet adopted accounting standards, see note 2 in our consolidated financial statements under **Item 8 Financial Statements and Supplementary Data**.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. The following is a discussion of our market risk exposures and our risk management practices.

In 2016, U.S. Treasury yields remained at historically low levels but rose in the fourth quarter of 2016 by as much as 40 basis points in response to the U.S. Presidential election and was further supported by a 25 basis point hike in the Federal Reserve policy rate. Global yields followed the U.S. bond markets higher and equity markets rose, particularly in the U.S., founded on expectations of robust fiscal stimulus coupled with business oriented economic policy changes leading global economic growth higher. See **Investments and Derivative Instruments** in **Item 7 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 December 31, 2016, the U.S. dollar weakened against the currency in Canada but strengthened against the currency in Australia compared to the balance sheet rate as of December 31, 2015. For the year ended December 31, 2016, the U.S. dollar strengthened against the currencies in Canada and Australia compared to the average rate for the year ended December 31, 2015. See **Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations** for further discussion on the impact changes in foreign currency exchange rates have had during the year.

While we enter into derivatives to mitigate certain market risks, our agreements with derivative counterparties and futures commission merchants require that we provide collateral as initial margin as well as variation margin to reflect changes in the fair value of our derivatives. We may hold more high-quality securities to ensure we have sufficient collateral to post to derivative counterparties or futures commission merchants in the event of adverse changes in the fair value of our derivative instruments. If we do not have sufficient high quality securities to provide as collateral, we may need to sell certain other securities to purchase assets that would be eligible for collateral posting, which could adversely impact our future investment income.

### *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

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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 deferred 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.

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 some contracts have guaranteed minimum interest crediting rates, declines in earned investment returns can impact the profitability of these products. As of December 31, 2016, of our \$11.8 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 December 31, 2016, \$4.1 billion have guaranteed minimum interest crediting rate floors ranging between 3% and 4%.

During periods of increasing market interest rates, we may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and we may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased unrealized losses on our investment portfolios, increased policy surrenders, withdrawals from life insurance policies and annuity contracts and requests for policy loans, as policyholders and contractholders shift assets into higher yielding investments. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on our financial condition and results of operations, including the requirement to liquidate fixed-income investments in an unrealized loss position to satisfy surrenders or withdrawals.

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 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 December 31, 2016 and 2015 was \$71.6 billion and \$69.1 billion, respectively, of which 85% and 84%, respectively, 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 mitigate

the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the duration of the liabilities that those securities are intended to support.

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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 fourth quarter of 2016, we reinvested \$3.1 billion at an average rate of 3.2% 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. During periods of increasing interest rates, market values of lower-yielding assets will decline. In addition, our interest rate hedges will decline which will require us to post additional collateral with our derivative counterparties.

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 have not and will not engage in derivative market-making, speculative derivative trading or other speculative derivatives activities.

Assuming investment yields remain at the 2016 levels for an extended period of time and based on our existing policies and investment portfolio as of December 31, 2016, we estimate the impact from investing in that lower interest rate environment could reduce our investment income by approximately \$15 million, \$40 million and \$70 million in 2017, 2018 and 2019, 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.

***Equity Market Risk***

Our exposure to equity market risk within our insurance companies primarily relates to variable annuities and life products and certain equity linked products. Certain variable annuity products have living benefit guarantees that expose us to equity market risk if the performance of the underlying mutual funds in the separate account products experience downturns and volatility for an extended period of time potentially resulting in more payments from general account assets than from contractholder separate account investments. Additionally, continued equity market volatility could result in additional losses in our variable annuity products and associated hedging program which will further challenge our ability to recover DAC on these products and could lead to write-offs of DAC, as well as



increased hedging costs. Downturns in equity markets could also lead to an increase in liabilities associated with secondary guarantee features, such as guaranteed minimum benefits on separate account products, where we have equity market risk exposure.

We are exposed to equity risk on our holdings of common stocks and other equities, as well as risk on products where we have equity market risk exposure. We manage equity price risk through industry and issuer diversification, asset allocation techniques and hedging strategies.

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We use derivative instruments, such as financial futures and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate equity risk by reducing our exposure to fluctuations in equity market indices that underlie some of our products.

*Foreign Currency Risk*

We also have exposure to foreign currency exchange risk. Our international operations generate revenues denominated in local currencies, and we invest cash generated outside the United States in non-U.S.-denominated securities. As of December 31, 2016 and 2015, approximately 10% and 9%, respectively, of our invested assets were held by our international operations and we invest cash generated in those operations in securities denominated in the same local currencies. Although investing in securities denominated in local currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations in our consolidated financial statements. We currently do not hedge the translation of operating results for our international operations. For the years ended December 31, 2016, 2015 and 2014, our international operations generated \$376 million, \$441 million and \$364 million, respectively, of our income (loss) from continuing operations, excluding net investment gains (losses). Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non- U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the United States.

We use derivative instruments, such as foreign currency swaps, financial futures and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate certain foreign currency risks by:

matching the currency of invested assets with the liabilities they support;

converting certain non-functional currency investments into functional currency; and

hedging certain near-term foreign currency dividends or cash flows expected from international subsidiaries.

***Sensitivity Analysis***

Sensitivity analysis measures the impact of hypothetical changes in interest rates, foreign exchange rates and other market rates or prices on the profitability of market-sensitive financial instruments.

The following discussion about the potential effects of changes in interest rates, foreign currency exchange rates and equity market prices is based on so-called shock-tests, which model the effects of interest rate, foreign currency exchange rate and equity market price shifts on our financial condition and results of operations. Although we believe shock-tests provide the most meaningful analysis permitted by the rules and regulations of the SEC, they are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of shock-tests for changes in interest rates, foreign currency exchange rates and equity market prices may have some limited use as benchmarks, they should not be viewed as forecasts. These forward-looking disclosures also are selective in nature and address only the potential impacts on our financial instruments. For the purpose of this sensitivity analysis, we excluded the potential impacts on our insurance liabilities

that are not considered financial instruments, with the exception of those insurance liabilities that have embedded derivatives that are required to be bifurcated in accordance with U.S. GAAP. In addition, this sensitivity analysis does not include a variety of other potential factors that could affect our business as a result of these changes in interest rates, foreign currency exchange rates and equity market prices.

**Table of Contents***Interest Rate Risk*

One means of assessing exposure to interest rate changes is a duration-based analysis that measures the potential changes in fair value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This is referred to as a parallel shift in the yield curve. Note that all impacts noted below exclude any effects of deferred taxes, DAC and PVFP unless otherwise noted.

Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the fair value of our fixed-income securities portfolio to decrease by approximately \$4.3 billion based on our securities positions as of December 31, 2016, as compared to an estimated decrease of \$4.0 billion under this model as of December 31, 2015. The results of this parallel shift in the yield curve would cause the fair value of our commercial mortgage loans to decrease by approximately \$358 million based on our commercial mortgage loans as of December 31, 2016, as compared to an estimated decrease of \$342 million as of December 31, 2015.

We performed a similar sensitivity analysis on our derivatives portfolio and noted that a 100 basis point increase in interest rates resulted in a decrease in fair value of \$689 million based on our derivatives portfolio as of December 31, 2016, as compared to an estimated decline of \$709 million under this model as of December 31, 2015. The estimated decrease in fair value of our derivatives portfolio would also require us to post collateral to certain derivative counterparties of \$701 million and would require us to post cash margin related to our futures contracts of \$82 million based on our derivatives portfolio as of December 31, 2016. Of the \$689 million estimated decrease in fair value on our derivatives portfolio as of December 31, 2016, \$82 million related to non-qualified derivatives used to mitigate interest rate risk associated with our GMWB embedded derivative liabilities as of December 31, 2016. We also performed a similar sensitivity analysis on our embedded derivatives associated with our GMWB liabilities and noted that a 100 basis point increase in interest rates resulted in a decrease of \$103 million based on our GMWB embedded derivative liabilities as of December 31, 2016, as compared to an estimated decline of \$105 million under this model as of December 31, 2015. As of December 31, 2016, we performed a similar sensitivity analysis and noted that a 100 basis point increase in interest rates resulted in an increase of \$10 million on our fixed index annuity embedded derivatives, as compared to an estimated increase of \$7 million under this model as of December 31, 2015, and a decrease of \$2 million on our indexed universal life embedded derivatives, as compared to an estimated decrease of \$1 million under this model as of December 31, 2015.

The impact on our insurance liabilities is not included in the sensitivities above.

The principal amount, weighted-average interest rate and fair value by maturity of our variable rate debt were as follows as of December 31, 2016:

<b>(Amounts in millions)</b>	<b>Principal amount</b>	<b>Weighted-average interest rate</b>	<b>Fair value <sup>(2)</sup></b>
<b>Maturity: <sup>(1)</sup></b>			
Non-recourse funding obligations:			
Rivermont Insurance Company I, 2050	\$ 310	2.75%	\$ 186
Total non-recourse funding obligations	310	2.75%	186
Floating rate junior notes, 2025 <sup>(3)</sup>	142	5.58%	142

Total floating rate debt	\$ 452	\$ 328
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- (1) There are no maturities over the next five years.
- (2) The valuation methodology used is based on the then-current coupon, revalued based on the London Interbank Offered Rate set and current spread assumption based on commercially available data. The model is a floating rate coupon model using the spread assumption to derive the valuation.
- (3) Subordinated floating rate notes issued by Genworth Financial Mortgage Insurance Pty Limited, our indirect wholly-owned subsidiary, due in 2025 have an interest rate of three-month Bank Bill Swap reference rate plus a margin of 3.50%.

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As of December 31, 2015, the weighted-average interest rate on our non-recourse funding obligations was 1.73% based on \$1,935 million of principal. 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. The weighted-average interest rate on subordinated floating rate notes issued by Genworth Financial Mortgage Insurance Pty Limited was 7.17% based on \$36 million of principal due in 2021 and 5.66% based on \$146 million due in 2025 as of December 31, 2015. In June 2016, Genworth Financial Mortgage Insurance Pty Limited redeemed all of its outstanding AUD\$50 million of subordinated floating rate notes due in 2021.

***Equity Market Risk***

One means of assessing exposure to changes in equity market prices is to estimate the potential changes in market values on our equity investments resulting from a hypothetical broad-based decline in equity market prices of 10%. Under this model, with all other factors constant, we estimated that such a decline in equity market prices would cause the fair value of our equity investments to decline by approximately \$18 million based on our equity positions as of December 31, 2016, as compared to an estimated decline of \$4 million under this model for the year ended December 31, 2015.

We performed a similar sensitivity analysis on our equity market derivatives and noted that a 10% decline in equity market prices would result in an increase in fair value of \$64 million based on our equity market derivatives as of December 31, 2016, as compared to an estimated increase of \$50 million under this model as of December 31, 2015. The estimated increase in fair value primarily relates to non-qualified derivatives used to mitigate equity market risk associated with our GMWB and fixed index annuity embedded derivative liabilities. We also performed a similar sensitivity analysis on our embedded derivatives associated with our GMWB liabilities and noted that a 10% decline in equity market prices would result in an estimated increase in fair value of \$56 million based on our GMWB embedded derivative liabilities as of December 31, 2016, as compared to an estimated increase of \$64 million under this model as of December 31, 2015. As of December 31, 2016, we performed a similar sensitivity analysis on our fixed index annuity and indexed universal life embedded derivatives and noted that a 10% decline in equity market prices would result in an estimated decrease in fair value of \$31 million and \$1 million, respectively, as compared to an estimated decrease in fair value of \$28 million and \$1 million, respectively, as of December 31, 2015.

***Foreign Currency Risk***

One means of assessing exposure to changes in foreign currency exchange rates is to model effects on reported income using a sensitivity analysis. We analyzed our combined currency exposure for the year ended December 31, 2016, and remeasured our pre-tax earnings assuming a 10% decrease in foreign currency exchange rates compared to the U.S. dollar. Under this model, with all other factors constant, we estimated that such a decrease would reduce our results, before taxes and noncontrolling interests, by approximately \$48 million and \$54 million under this model for the years ended December 31, 2016 and 2015, respectively.

We also performed a similar sensitivity analysis on our foreign currency derivative portfolio and noted that a 10% decrease in currency exchange rates resulted in a decrease in fair value of \$39 million as of December 31, 2016, as compared to an estimated decrease of \$5 million under this model for the year ended December 31, 2015. The change in fair value of derivatives may not result in a direct impact to our income as a result of certain derivatives that may be designated as qualifying hedge relationships.

***Derivative Counterparty Credit Risk***

For all derivative instruments except for derivatives associated with our consolidated securitization entities, a counterparty (or its guarantor, as applicable) may not have a long-term unsecured debt rating below A-/A3 as rated by S&P and Moody's, respectively, at the date of execution of the derivative instrument. The same

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requirement applies where a Credit Support Annex ( CSA ) to an International Swaps and Derivatives Association, Inc. ( ISDA ) Master Agreement has been obtained such that the counterparty is obligated to provide collateral. In the case of a split or single rating, the lowest or the single rating will apply.

In the case of foreign exchange transactions with a tenor of exposure of less than one year, a counterparty must have short-term credit rating of A-1/P-1 or its equivalent. In the case of a split or single rating, the lowest or the single rating will apply.

All counterparty exposure is measured on a net mark-to-market basis where the valuation of a derivative is adjusted to reflect current market values. This is achieved by estimating the net present value of derivatives positions contracted and outstanding with each counterparty and calculating the gross loss (excluding recoveries) that would be sustained in the event of a counterparty bankruptcy (taking into account netting and pledged collateral under the applicable ISDA Master Agreement and CSA). Investment exposure limits to counterparties take into account all exposures (through derivatives, bond investments, repurchase transactions or otherwise).

We also engage in derivatives transactions traded on regulated exchanges or clearinghouses where the exchanges or clearinghouse ensure the performance of the contracts.



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Genworth Financial, Inc.:

We have audited the accompanying consolidated balance sheets of Genworth Financial, Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genworth Financial, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Genworth Financial, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Richmond, Virginia

February 27, 2017

**Table of Contents****GENWORTH FINANCIAL, INC.****CONSOLIDATED BALANCE SHEETS****(Amounts in millions, except per share amounts)**

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 60,572	\$ 58,197
Equity securities available-for-sale, at fair value	632	310
Commercial mortgage loans	6,111	6,170
Restricted commercial mortgage loans related to securitization entities	129	161
Policy loans	1,742	1,568
Other invested assets	2,071	2,309
Restricted other invested assets related to securitization entities, at fair value	312	413
<b>Total investments</b>	<b>71,569</b>	<b>69,128</b>
Cash and cash equivalents	2,784	5,965
Accrued investment income	659	653
Deferred acquisition costs	3,571	4,398
Intangible assets and goodwill	348	357
Reinsurance recoverable	17,755	17,245
Other assets	673	520
Deferred tax asset		155
Separate account assets	7,299	7,883
Assets held for sale		127
<b>Total assets</b>	<b>\$ 104,658</b>	<b>\$ 106,431</b>
<b>Liabilities and equity</b>		
Liabilities:		
Future policy benefits	\$ 37,063	\$ 36,475
Policyholder account balances	25,662	26,209
Liability for policy and contract claims	9,256	8,095
Unearned premiums	3,378	3,308
Other liabilities (\$1 and \$46 of other liabilities are related to securitization entities)	2,916	3,004
Borrowings related to securitization entities (\$12 and \$81 are carried at fair value)	74	179
Non-recourse funding obligations	310	1,920
Long-term borrowings	4,180	4,570
Deferred tax liability	53	24
Separate account liabilities	7,299	7,883
Liabilities held for sale		127
<b>Total liabilities</b>	<b>90,191</b>	<b>91,794</b>

## 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 December 31, 2016 and 2015, respectively; 498 million shares outstanding as of December 31, 2016 and 2015	1	1
Additional paid-in capital	11,962	11,949
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,253	1,236
Net unrealized gains (losses) on other-than-temporarily impaired securities	9	18
Net unrealized investment gains (losses)	1,262	1,254
Derivatives qualifying as hedges	2,085	2,045
Foreign currency translation and other adjustments	(253)	(289)
Total accumulated other comprehensive income (loss)	3,094	3,010
Retained earnings	287	564
Treasury stock, at cost (88 million shares as of December 31, 2016 and 2015)	(2,700)	(2,700)
Total Genworth Financial, Inc.'s stockholders' equity	12,644	12,824
Noncontrolling interests	1,823	1,813
Total equity	14,467	14,637
Total liabilities and equity	\$ 104,658	\$ 106,431

See Notes to Consolidated Financial Statements

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

	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>			
Premiums	\$ 4,160	\$ 4,579	\$ 4,700
Net investment income	3,159	3,138	3,142
Net investment gains (losses)	72	(75)	(22)
Policy fees and other income	978	906	909
<b>Total revenues</b>	<b>8,369</b>	<b>8,548</b>	<b>8,729</b>
<b>Benefits and expenses:</b>			
Benefits and other changes in policy reserves	5,245	5,149	6,418
Interest credited	696	720	737
Acquisition and operating expenses, net of deferrals	1,273	1,309	1,138
Amortization of deferred acquisition costs and intangibles	498	966	453
Goodwill impairment			849
Interest expense	337	419	433
<b>Total benefits and expenses</b>	<b>8,049</b>	<b>8,563</b>	<b>10,028</b>
Income (loss) from continuing operations before income taxes	320	(15)	(1,299)
Provision (benefit) for income taxes	358	(9)	(94)
<b>Loss from continuing operations</b>	<b>(38)</b>	<b>(6)</b>	<b>(1,205)</b>
Income (loss) from discontinued operations, net of taxes	(29)	(407)	157
<b>Net loss</b>	<b>(67)</b>	<b>(413)</b>	<b>(1,048)</b>
Less: net income attributable to noncontrolling interests	210	202	196
<b>Net loss available to Genworth Financial, Inc. s common stockholders</b>	<b>\$ (277)</b>	<b>\$ (615)</b>	<b>\$ (1,244)</b>
<b>Loss from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:</b>			
Basic	\$ (0.50)	\$ (0.42)	\$ (2.82)
Diluted	\$ (0.50)	\$ (0.42)	\$ (2.82)
<b>Net loss available to Genworth Financial, Inc. s common stockholders per common share:</b>			
Basic	\$ (0.56)	\$ (1.24)	\$ (2.51)

Diluted	\$ (0.56)	\$ (1.24)	\$ (2.51)
Weighted-average common shares outstanding:			
Basic	498.3	497.4	496.4
Diluted	498.3	497.4	496.4
Supplemental disclosures:			
Total other-than-temporary impairments	\$ (40)	\$ (28)	\$ (9)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		1	
Net other-than-temporary impairments	(40)	(27)	(9)
Other investment gains (losses)	112	(48)	(13)
Total net investment gains (losses)	\$ 72	\$ (75)	\$ (22)

See Notes to Consolidated Financial Statements

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

(Amounts in millions)

	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net loss	\$ (67)	\$ (413)	\$ (1,048)
Other comprehensive income (loss), net of taxes:			
Net unrealized gains (losses) on securities not other-than-temporarily impaired	6	(1,209)	1,573
Net unrealized gains (losses) on other-than-temporarily impaired securities	(9)	(4)	10
Derivatives qualifying as hedges	40	(25)	751
Foreign currency translation and other adjustments	54	(530)	(537)
<b>Total other comprehensive income (loss)</b>	<b>91</b>	<b>(1,768)</b>	<b>1,797</b>
Total comprehensive income (loss)	24	(2,181)	749
Less: comprehensive income (loss) attributable to noncontrolling interests	217	(106)	32
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	\$ (193)	\$ (2,075)	\$ 717

See Notes to Consolidated Financial Statements



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## GENWORTH FINANCIAL, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

	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, 2013	\$ 1	\$ 12,127	\$ 2,542	\$ 2,423	\$ (2,700)	\$ 14,393	\$ 1,227	\$ 15,620
Initial sale of subsidiary shares to noncontrolling interests		(145)	(57)			(202)	713	511
Repurchase of subsidiary shares							(28)	(28)
Comprehensive income (loss):								
Net income (loss)				(1,244)		(1,244)	196	(1,048)
Other comprehensive income (loss), net of taxes			1,961			1,961	(164)	1,797
Total comprehensive income (loss)						717	32	749
Dividends to noncontrolling interests							(75)	(75)
Stock-based compensation expense and exercises and other		15				15	5	20
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 (68)	226 (68)

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Repurchase of subsidiary shares									
Comprehensive income (loss):									
Net income (loss)				(615)		(615)	202	(413)	
Other comprehensive income (loss), net of taxes			(1,460)			(1,460)	(308)	(1,768)	
Total comprehensive income (loss)						(2,075)	(106)	(2,181)	
Dividends to noncontrolling interests							(157)	(157)	
Stock-based compensation expense and exercises and other		17				17	3	20	
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)				(277)		(277)	210	(67)	
Other comprehensive income (loss), net of taxes			84			84	7	91	
Total comprehensive income (loss)						(193)	217	24	
Dividends to noncontrolling interests							(138)	(138)	
Stock-based compensation expense and exercises and other		13				13	1	14	
Balances as of December 31, 2016	\$ 1	\$ 11,962	\$ 3,094	\$ 287	\$ (2,700)	\$ 12,644	\$ 1,823	\$ 14,467	

See Notes to Consolidated Financial Statements

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

	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (67)	\$ (413)	\$ (1,048)
Less (income) loss from discontinued operations, net of taxes	29	407	(157)
<b>Adjustments to reconcile net loss to net cash from operating activities:</b>			
(Gain) loss on sale of businesses	(26)	141	
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(138)	(106)	(111)
Net investment (gains) losses	(72)	75	22
Charges assessed to policyholders	(782)	(788)	(777)
Acquisition costs deferred	(150)	(293)	(383)
Amortization of deferred acquisition costs and intangibles	498	966	453
Goodwill impairment			849
Deferred income taxes	145	(196)	(341)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	709	(239)	206
Stock-based compensation expense	32	16	28
<b>Change in certain assets and liabilities:</b>			
Accrued investment income and other assets	(358)	(106)	(163)
Insurance reserves	1,315	1,847	2,497
Current tax liabilities	32	(15)	(196)
Other liabilities, policy and contract claims and other policy-related balances	685	293	1,517
Cash from operating activities held for sale		2	42