

GENWORTH FINANCIAL INC
Form 10-Q
May 04, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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.

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(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

33-1073076
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

6620 West Broad Street

Richmond, Virginia
(Address of Principal Executive Offices)

23230
(Zip Code)

(804) 281-6000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 May 1, 2012, 491,502,704 shares of Class A Common Stock, par value \$0.001 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

| | Page |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <u>PART I FINANCIAL INFORMATION</u> | 3 |
| Item 1. <u>Financial Statements</u> | 3 |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011 (Unaudited)</u> | 3 |
| <u>Condensed Consolidated Statements of Income for the three months ended March 31, 2012 and 2011 (Unaudited)</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011 (Unaudited)</u> | 5 |
| <u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2012 and 2011 (Unaudited)</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011 (Unaudited)</u> | 7 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 8 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 69 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 132 |
| Item 4. <u>Controls and Procedures</u> | 132 |
| <u>PART II OTHER INFORMATION</u> | 133 |
| Item 1. <u>Legal Proceedings</u> | 133 |
| Item 1A. <u>Risk Factors</u> | 134 |
| Item 6. <u>Exhibits</u> | 135 |
| <u>Signatures</u> | 136 |

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

| | March 31, 2012 | December 31, 2011 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | \$ 58,532 | \$ 58,295 |
| Equity securities available-for-sale, at fair value | 434 | 361 |
| Commercial mortgage loans | 6,030 | 6,092 |
| Restricted commercial mortgage loans related to securitization entities | 392 | 411 |
| Policy loans | 1,555 | 1,549 |
| Other invested assets | 3,001 | 4,819 |
| Restricted other invested assets related to securitization entities (\$383 and \$376 at fair value) | 384 | 377 |
| Total investments | 70,328 | 71,904 |
| Cash and cash equivalents | 4,187 | 4,488 |
| Accrued investment income | 759 | 691 |
| Deferred acquisition costs | 5,060 | 5,193 |
| Intangible assets | 573 | 580 |
| Goodwill | 1,256 | 1,253 |
| Reinsurance recoverable | 17,193 | 16,998 |
| Other assets | 981 | 958 |
| Separate account assets | 10,646 | 10,122 |
| Total assets | \$ 110,983 | \$ 112,187 |
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Future policy benefits | \$ 32,380 | \$ 32,175 |
| Policyholder account balances | 26,204 | 26,345 |
| Liability for policy and contract claims | 7,663 | 7,620 |
| Unearned premiums | 4,209 | 4,223 |
| Other liabilities (\$174 and \$210 other liabilities related to securitization entities) | 5,308 | 6,308 |
| Borrowings related to securitization entities (\$55 and \$48 at fair value) | 383 | 396 |
| Non-recourse funding obligations | 2,602 | 3,256 |
| Long-term borrowings | 5,095 | 4,726 |
| Deferred tax liability | 610 | 838 |
| Separate account liabilities | 10,646 | 10,122 |
| Total liabilities | 95,100 | 96,009 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 580 million and 579 million shares issued as of March 31, 2012 and December 31, 2011, respectively; 491 million shares outstanding as of March 31, 2012 and December 31, 2011 | 1 | 1 |

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| | | |
|----------------------------------------------------------------------------------------|-------------------|-------------------|
| Additional paid-in capital | 12,150 | 12,136 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized investment gains (losses): | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,438 | 1,617 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (111) | (132) |
| Net unrealized investment gains (losses) | 1,327 | 1,485 |
| Derivatives qualifying as hedges | | |
| Foreign currency translation and other adjustments | 649 | 553 |
| Total accumulated other comprehensive income (loss) | 3,656 | 4,047 |
| Retained earnings | 1,631 | 1,584 |
| Treasury stock, at cost (88 million shares as of March 31, 2012 and December 31, 2011) | (2,700) | (2,700) |
| Total Genworth Financial, Inc.'s stockholders' equity | 14,738 | 15,068 |
| Noncontrolling interests | 1,145 | 1,110 |
| Total stockholders' equity | 15,883 | 16,178 |
| Total liabilities and stockholders' equity | \$ 110,983 | \$ 112,187 |

See Notes to Condensed Consolidated Financial Statements

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

(Amounts in millions, except per share amounts)

(Unaudited)

| | Three months ended March 31, | |
|-------------------------------------------------------------------------------------------------|---------------------------------|--------------|
| | 2012 | 2011 |
| Revenues: | | |
| Premiums | \$ 1,107 | \$ 1,437 |
| Net investment income | 832 | 830 |
| Net investment gains (losses) | 35 | (28) |
| Insurance and investment product fees and other | 452 | 329 |
| Total revenues | 2,426 | 2,568 |
| Benefits and expenses: | | |
| Benefits and other changes in policy reserves | 1,232 | 1,413 |
| Interest credited | 195 | 201 |
| Acquisition and operating expenses, net of deferrals | 530 | 563 |
| Amortization of deferred acquisition costs and intangibles | 272 | 151 |
| Interest expense | 95 | 127 |
| Total benefits and expenses | 2,324 | 2,455 |
| Income before income taxes | 102 | 113 |
| Provision for income taxes | 22 | 20 |
| Net income | 80 | 93 |
| Less: net income attributable to noncontrolling interests | 33 | 34 |
| Net income available to Genworth Financial, Inc. s common stockholders | \$ 47 | \$ 59 |
| Net income available to Genworth Financial, Inc. s common stockholders per common share: | | |
| Basic | \$ 0.09 | \$ 0.12 |
| Diluted | \$ 0.09 | \$ 0.12 |
| Weighted-average common shares outstanding: | | |
| Basic | 491.2 | 490.1 |
| Diluted | 495.7 | 494.4 |
| Supplemental disclosures: | | |
| Total other-than-temporary impairments | \$ (16) | \$ (31) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | (1) | (5) |
| Net other-than-temporary impairments | (17) | (36) |
| Other investments gains (losses) | 52 | 8 |

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Total net investment gains (losses)

\$ 35 \$ (28)

See Notes to Condensed Consolidated Financial Statements

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

| | Three months ended March 31, | |
|------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------|
| | 2012 | 2011 |
| Net income | \$ 80 | \$ 93 |
| Other comprehensive income (loss), net of taxes: | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | (185) | 50 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 21 | 7 |
| Derivatives qualifying as hedges | (329) | (60) |
| Foreign currency translation and other adjustments | 116 | 152 |
| Total other comprehensive income (loss) | (377) | 149 |
| Total comprehensive income (loss) | (297) | 242 |
| Less: comprehensive income attributable to noncontrolling interests | 47 | 54 |
| Total comprehensive income (loss) available to Genworth Financial, Inc.'s common stockholders | \$ (344) | \$ 188 |

See Notes to Condensed Consolidated Financial Statements

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

(Amounts in millions)

(Unaudited)

| | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | Treasury stock, at cost | Total Genworth Financial, Inc.'s stockholders equity | Noncontrolling interests | Total stockholders equity |
|------------------------------------------------------------------------------------|-----------------|----------------------------------|-----------------------------------------------------------|----------------------|-------------------------------|---------------------------------------------------------------------|-----------------------------|---------------------------------|
| Balances as of December 31, 2011 | \$ 1 | \$ 12,136 | \$ 4,047 | \$ 1,584 | \$ (2,700) | \$ 15,068 | \$ 1,110 | \$ 16,178 |
| Comprehensive income (loss): | | | | | | | | |
| Net income | | | | 47 | | 47 | 33 | 80 |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | | | (179) | | | (179) | (6) | (185) |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | | 21 | | | 21 | | 21 |
| Derivatives qualifying as hedges | | | (329) | | | (329) | | (329) |
| Foreign currency translation and other adjustments | | | 96 | | | 96 | 20 | 116 |
| Total comprehensive income (loss) | | | | | | (344) | 47 | (297) |
| Dividends to noncontrolling interests | | | | | | | (12) | (12) |
| Stock-based compensation expense and exercises and other | | 14 | | | | 14 | | 14 |
| Balances as of March 31, 2012 | \$ 1 | \$ 12,150 | \$ 3,656 | \$ 1,631 | \$ (2,700) | \$ 14,738 | \$ 1,145 | \$ 15,883 |
| Balances as of December 31, 2010 | \$ 1 | \$ 12,107 | \$ 1,506 | \$ 1,535 | \$ (2,700) | \$ 12,449 | \$ 1,096 | \$ 13,545 |
| Comprehensive income (loss): | | | | | | | | |
| Net income | | | | 59 | | 59 | 34 | 93 |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | | | 59 | | | 59 | (9) | 50 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | | 7 | | | 7 | | 7 |
| Derivatives qualifying as hedges | | | (60) | | | (60) | | (60) |
| Foreign currency translation and other adjustments | | | 123 | | | 123 | 29 | 152 |
| Total comprehensive income (loss) | | | | | | 188 | 54 | 242 |
| Dividends to noncontrolling interests | | | | | | | (12) | (12) |
| Stock-based compensation expense and exercises and other | | 6 | | | | 6 | | 6 |
| Balances as of March 31, 2011 | \$ 1 | \$ 12,113 | \$ 1,635 | \$ 1,594 | \$ (2,700) | \$ 12,643 | \$ 1,138 | \$ 13,781 |

See Notes to Condensed Consolidated Financial Statements

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

| | Three months ended March 31, | |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 80 | \$ 93 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Amortization of fixed maturity discounts and premiums and limited partnerships | (19) | (18) |
| Net investment losses (gains) | (35) | 28 |
| Charges assessed to policyholders | (187) | (159) |
| Acquisition costs deferred | (154) | (166) |
| Amortization of deferred acquisition costs and intangibles | 272 | 151 |
| Deferred income taxes | 26 | (47) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | (45) | 35 |
| Stock-based compensation expense | 9 | 7 |
| Change in certain assets and liabilities: | | |
| Accrued investment income and other assets | (112) | (117) |
| Insurance reserves | 369 | 561 |
| Current tax liabilities | (86) | 25 |
| Other liabilities and other policy-related balances | (370) | (57) |
| Net cash from operating activities | (252) | 336 |
| Cash flows from investing activities: | | |
| Proceeds from maturities and repayments of investments: | | |
| Fixed maturity securities | 969 | 1,627 |
| Commercial mortgage loans | 142 | 148 |
| Restricted commercial mortgage loans related to securitization entities | 14 | 22 |
| Proceeds from sales of investments: | | |
| Fixed maturity and equity securities | 1,717 | 1,009 |
| Purchases and originations of investments: | | |
| Fixed maturity and equity securities | (3,049) | (2,200) |
| Commercial mortgage loans | (81) | (38) |
| Other invested assets, net | 436 | (59) |
| Policy loans, net | (6) | (9) |
| Payments for businesses purchased, net of cash acquired | (18) | (4) |
| Net cash from investing activities | 124 | 496 |
| Cash flows from financing activities: | | |
| Deposits to universal life and investment contracts | 662 | 560 |
| Withdrawals from universal life and investment contracts | (600) | (1,115) |
| Redemption and repurchase of non-recourse funding obligations | (563) | (6) |
| Proceeds from the issuance of long-term debt | 361 | 397 |
| Repayment of borrowings related to securitization entities | (19) | (12) |
| Dividends paid to noncontrolling interests | (12) | (12) |
| Other, net | (18) | (33) |

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| | | |
|--------------------------------------------------------------|----------|----------|
| Net cash from financing activities | (189) | (221) |
| Effect of exchange rate changes on cash and cash equivalents | 16 | (1) |
| Net change in cash and cash equivalents | (301) | 610 |
| Cash and cash equivalents at beginning of period | 4,488 | 3,132 |
| Cash and cash equivalents at end of period | \$ 4,187 | \$ 3,742 |

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Financial, Inc. (Genworth) was incorporated in Delaware on October 23, 2003. The accompanying condensed financial statements include on a consolidated basis the accounts of Genworth and our affiliate companies in which we hold a majority voting interest or where we are the primary beneficiary of a variable interest entity, which we refer to as the Company, we, us or our unless the context otherwise requires. All intercompany accounts and transactions have been eliminated in consolidation.

We have the following operating segments:

U.S. Life Insurance. We offer and manage a variety of insurance and fixed annuity products. Our primary insurance products include life and long-term care insurance.

International Protection. We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European countries. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

Wealth Management. We offer and manage a variety of wealth management services, including investments, advisor support and practice management services.

International Mortgage Insurance. We are a leading provider of mortgage insurance products and related services in Canada, Australia, Mexico and multiple European countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk.

U.S. Mortgage Insurance. In the United States, we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. We selectively provide mortgage insurance on a bulk basis with essentially all of our bulk writings prime-based. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and Medicare supplement insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). In January 2011, we discontinued new sales of retail and group variable annuities while continuing to service our existing blocks of business. Effective October 1, 2011, we completed the sale of our Medicare supplement insurance business.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other non-core businesses that are managed outside of our operating segments.

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The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Actual results could differ from those estimates. These condensed consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2011 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

On January 1, 2012, we adopted new accounting guidance requiring presentation of the components of net income (loss), the components of other comprehensive income (loss) (OCI) and total comprehensive income either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements. We chose to present two separate but consecutive statements and adopted this new guidance retrospectively. The Financial Accounting Standards Board (FASB) issued an amendment relating to this new guidance for presentation of the reclassification of items out of accumulated other comprehensive income into net income that removed this requirement until further guidance is issued. The adoption of this new accounting guidance did not have any impact on our consolidated financial results.

On January 1, 2012, we adopted new accounting guidance related to fair value measurements. This new accounting guidance clarified existing fair value measurement requirements and changed certain fair value measurement principles and disclosure requirements. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2012, we adopted new accounting guidance related to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The new guidance removed the requirement to consider a transferor's ability to fulfill its contractual rights from the criteria used to determine effective control and was effective for us prospectively for any transactions occurring on or after January 1, 2012. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

On January 1, 2012, we adopted new accounting guidance related to accounting for costs associated with acquiring or renewing insurance contracts. Acquisition costs include costs that are related directly 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. These costs include commissions in excess of ultimate renewal commissions and for contracts and policies issued some support costs, such as underwriting, medical inspection and issuance expenses. Deferred acquisition costs (DAC) are subsequently amortized to expense over the lives of the underlying contracts, in relation to the anticipated recognition of premiums or gross profits. We adopted this new guidance retrospectively, which reduced retained earnings and stockholders equity by \$1.3 billion as of January 1, 2011, and reduced net income (loss) by \$63 million, \$86 million and \$12 million for the years ended December 31, 2011, 2010 and 2009, respectively. This new guidance results in lower amortization and fewer deferred costs, specifically related to underwriting, inspection and processing for contracts that are not issued, as well as marketing and customer solicitation.

Effective January 1, 2012, we changed our treatment of the liability for future policy benefits for our level premium term life insurance products when the liability for a policy falls below zero. Previously, the total liability for future policy benefits included negative reserves calculated at an individual policy level. Through

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2010, we issued level premium term life insurance policies whose premiums are contractually determined to be level through a period of time and then increase thereafter. Our previous accounting policy followed the accounting for traditional, long-duration insurance contracts where the reserves are calculated as the present value of expected benefit payments minus the present value of net premiums based on assumptions determined on the policy issuance date including mortality, interest, and lapse rates. This accounting has the effect of causing profits to emerge as a level percentage of premiums, subject to differences in assumed versus actual experience which flow through income as they occur, and for products with an increasing premium stream, such as the level premium term life insurance product, may result in negative reserves for a given policy.

More recent insurance-specific accounting guidance reflects a different accounting philosophy, emphasizing the balance sheet over the income statement, or matching, focus which was the philosophy in place when the traditional, long-duration insurance contract guidance was issued (the accounting model for traditional, long-duration insurance contracts draws upon the principles of matching and conservatism originating in the 1970 s, and does not specifically address negative reserves). More recent accounting models for long-duration contracts specifically prohibit negative reserves, e.g., non-traditional contracts with annuitization benefits and certain participating contracts. These recent accounting models do not impact the reserving for our level premium term life insurance products.

We believe that industry accounting practices for level premium term life insurance product reserving is mixed with some companies flooring reserves at zero and others applying our previous accounting policy described above. In 2010, we stopped issuing new level premium term life insurance policies. Thus, as the level premium term policies reach the end of their level premium term periods, the portion of policies with negative reserves in relation to the reserve for all level premium term life insurance products will continue to increase. Our new method of accounting floors the liability for future policy benefits on each level premium term life insurance policy at zero. We believe that flooring reserves at zero is preferable in our circumstances as this alternative accounting policy will not allow negative reserves to accumulate on the balance sheet for this closed block of insurance policies. In implementing this change in accounting, no changes were made to the assumptions that were locked-in at policy inception. We implemented this accounting change retrospectively, which reduced retained earnings and stockholders' equity by \$110 million as of January 1, 2011, and reduced net income (loss) by \$10 million, \$4 million and \$32 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

The following table presents the balance sheet as of December 31, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

| (Amounts in millions) | As Originally Reported | Effect of DAC Change | Effect of Reserve Change | As Adjusted |
|---------------------------------------------------------------------------------|------------------------|----------------------|--------------------------|-------------------|
| Assets | | | | |
| Total investments | \$ 71,904 | \$ | \$ | \$ 71,904 |
| Cash and cash equivalents | 4,488 | | | 4,488 |
| Accrued investment income | 691 | | | 691 |
| Deferred acquisition costs | 7,327 | (2,134) | | 5,193 |
| Intangible assets | 577 | 3 | | 580 |
| Goodwill | 1,253 | | | 1,253 |
| Reinsurance recoverable | 16,982 | | 16 | 16,998 |
| Other assets | 958 | | | 958 |
| Separate account assets | 10,122 | | | 10,122 |
| Total assets | \$ 114,302 | \$ (2,131) | \$ 16 | \$ 112,187 |
| Liabilities and stockholders' equity | | | | |
| Liabilities: | | | | |
| Future policy benefits | \$ 31,971 | \$ 3 | \$ 201 | \$ 32,175 |
| Policyholder account balances | 26,345 | | | 26,345 |
| Liability for policy and contract claims | 7,620 | | | 7,620 |
| Unearned premiums | 4,257 | (34) | | 4,223 |
| Other liabilities | 6,308 | | | 6,308 |
| Borrowings related to securitization entities | 396 | | | 396 |
| Non-recourse funding obligations | 3,256 | | | 3,256 |
| Long-term borrowings | 4,726 | | | 4,726 |
| Deferred tax liability | 1,636 | (733) | (65) | 838 |
| Separate account liabilities | 10,122 | | | 10,122 |
| Total liabilities | 96,637 | (764) | 136 | 96,009 |
| Stockholders' equity: | | | | |
| Class A common stock | 1 | | | 1 |
| Additional paid-in capital | 12,124 | 12 | | 12,136 |
| Accumulated other comprehensive income (loss): | | | | |
| Net unrealized investment gains (losses): | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,586 | 31 | | 1,617 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (132) | | | (132) |
| Net unrealized investment gains (losses) | 1,454 | 31 | | 1,485 |
| Derivatives qualifying as hedges | 2,009 | | | 2,009 |

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| | | | | |
|-------------------------------------------------------|------------|------------|-------|------------|
| Foreign currency translation and other adjustments | 558 | (5) | | 553 |
| Total accumulated other comprehensive income (loss) | 4,021 | 26 | | 4,047 |
| Retained earnings | 3,095 | (1,391) | (120) | 1,584 |
| Treasury stock, at cost | (2,700) | | | (2,700) |
| Total Genworth Financial, Inc.'s stockholders' equity | 16,541 | (1,353) | (120) | 15,068 |
| Noncontrolling interests | 1,124 | (14) | | 1,110 |
| Total stockholders' equity | 17,665 | (1,367) | (120) | 16,178 |
| Total liabilities and stockholders' equity | \$ 114,302 | \$ (2,131) | \$ 16 | \$ 112,187 |

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

The following table presents the income statement for the three months ended March 31, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

| (Amounts in millions) | As Originally Reported | Effect of DAC Change | Effect of Reserve Change | As Adjusted |
|------------------------------------------------------------------------|---------------------------|-------------------------|-----------------------------|----------------|
| Revenues: | | | | |
| Premiums | \$ 1,437 | \$ | \$ | \$ 1,437 |
| Net investment income | 830 | | | 830 |
| Net investment gains (losses) | (28) | | | (28) |
| Insurance and investment product fees and other | 329 | | | 329 |
| Total revenues | 2,568 | | | 2,568 |
| Benefits and expenses: | | | | |
| Benefits and other changes in policy reserves | 1,409 | | 4 | 1,413 |
| Interest credited | 201 | | | 201 |
| Acquisition and operating expenses, net of deferrals | 500 | 63 | | 563 |
| Amortization of deferred acquisition costs and intangibles | 185 | (34) | | 151 |
| Interest expense | 127 | | | 127 |
| Total benefits and expenses | 2,422 | 29 | 4 | 2,455 |
| Income before income taxes | 146 | (29) | (4) | 113 |
| Provision for income taxes | 30 | (9) | (1) | 20 |
| Net income | 116 | (20) | (3) | 93 |
| Less: net income attributable to noncontrolling interests | 34 | | | 34 |
| Net income available to Genworth Financial, Inc.'s common stockholders | \$ 82 | \$ (20) | \$ (3) | \$ 59 |

The following table presents the cash flows from operating activities for the three months ended March 31, 2011 reflecting the impact of the accounting changes that were retrospectively adopted on January 1, 2012:

| (Amounts in millions) | As Originally Reported | Effect of DAC Change | Effect of Reserve Change | As Adjusted |
|-----------------------------------------------------------------------------------|---------------------------|-------------------------|-----------------------------|----------------|
| Cash flows from operating activities: | | | | |
| Net income | \$ 116 | \$ (20) | \$ (3) | \$ 93 |
| Adjustments to reconcile net income to net cash from operating activities: | | | | |
| Amortization of fixed maturity discounts and premiums and limited partnerships | (18) | | | (18) |
| Net investment losses | 28 | | | 28 |

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| | | | | |
|------------------------------------------------------------------------------------------|--------|------|-----|--------|
| Charges assessed to policyholders | (159) | | | (159) |
| Acquisition costs deferred | (229) | 63 | | (166) |
| Amortization of deferred acquisition costs and intangibles | 185 | (34) | | 151 |
| Deferred income taxes | (37) | (9) | (1) | (47) |
| Net increase in trading securities, held-for-sale investments and derivative instruments | 35 | | | 35 |
| Stock-based compensation expense | 7 | | | 7 |
| Change in certain assets and liabilities: | | | | |
| Accrued investment income and other assets | (117) | | | (117) |
| Insurance reserves | 557 | | 4 | 561 |
| Current tax liabilities | 25 | | | 25 |
| Other liabilities and policy-related balances | (57) | | | (57) |
| Net cash from operating activities | \$ 336 | \$ | \$ | \$ 336 |

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

The following table presents the balance sheet as of March 31, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

| (Amounts in millions) | As Reported Under New Policy | As Computed Under Previous Policy | Effect of Change |
|---------------------------------------------------------------------------------|------------------------------------|--------------------------------------------|---------------------|
| Assets | | | |
| Total investments | \$ 70,328 | \$ 70,328 | \$ |
| Cash and cash equivalents | 4,187 | 4,187 | |
| Accrued investment income | 759 | 759 | |
| Deferred acquisition costs | 5,060 | 5,060 | |
| Intangible assets | 573 | 573 | |
| Goodwill | 1,256 | 1,256 | |
| Reinsurance recoverable | 17,193 | 17,177 | 16 |
| Other assets | 981 | 981 | |
| Separate account assets | 10,646 | 10,646 | |
| Total assets | \$ 110,983 | \$ 110,967 | \$ 16 |
| Liabilities and stockholders' equity | | | |
| Liabilities: | | | |
| Future policy benefits | \$ 32,380 | \$ 32,172 | \$ 208 |
| Policyholder account balances | 26,204 | 26,204 | |
| Liability for policy and contract claims | 7,663 | 7,663 | |
| Unearned premiums | 4,209 | 4,209 | |
| Other liabilities | 5,308 | 5,308 | |
| Borrowings related to securitization entities | 383 | 383 | |
| Non-recourse funding obligations | 2,602 | 2,602 | |
| Long-term borrowings | 5,095 | 5,095 | |
| Deferred tax liability | 610 | 677 | (67) |
| Separate account liabilities | 10,646 | 10,646 | |
| Total liabilities | 95,100 | 94,959 | 141 |
| Stockholders' equity: | | | |
| Class A common stock | 1 | 1 | |
| Additional paid-in capital | 12,150 | 12,150 | |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized investment gains (losses): | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,438 | 1,438 | |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (111) | (111) | |
| Net unrealized investment gains (losses) | 1,327 | 1,327 | |
| Derivatives qualifying as hedges | 1,680 | 1,680 | |

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| | | | |
|-------------------------------------------------------|------------|------------|-------|
| Foreign currency translation and other adjustments | 649 | 649 | |
| Total accumulated other comprehensive income (loss) | 3,656 | 3,656 | |
| Retained earnings | 1,631 | 1,756 | (125) |
| Treasury stock, at cost | (2,700) | (2,700) | |
| Total Genworth Financial, Inc.'s stockholders' equity | 14,738 | 14,863 | (125) |
| Noncontrolling interests | 1,145 | 1,145 | |
| Total stockholders' equity | 15,883 | 16,008 | (125) |
| Total liabilities and stockholders' equity | \$ 110,983 | \$ 110,967 | \$ 16 |

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

The following table presents the income statement for the three months ended March 31, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

| (Amounts in millions) | As Reported Under New Policy | As Computed Under Previous Policy | Effect of Change |
|-------------------------------------------------------------------------------|------------------------------------|-----------------------------------------|---------------------|
| Revenues: | | | |
| Premiums | \$ 1,107 | \$ 1,107 | \$ |
| Net investment income | 832 | 832 | |
| Net investment gains (losses) | 35 | 35 | |
| Insurance and investment product fees and other | 452 | 452 | |
| Total revenues | 2,426 | 2,426 | |
| Benefits and expenses: | | | |
| Benefits and other changes in policy reserves | 1,232 | 1,225 | (7) |
| Interest credited | 195 | 195 | |
| Acquisition and operating expenses, net of deferrals | 530 | 530 | |
| Amortization of deferred acquisition costs and intangibles | 272 | 272 | |
| Interest expense | 95 | 95 | |
| Total benefits and expenses | 2,324 | 2,317 | (7) |
| Income before income taxes | 102 | 109 | (7) |
| Provision for income taxes | 22 | 24 | 2 |
| Net income | 80 | 85 | (5) |
| Less: net income attributable to noncontrolling interests | 33 | 33 | |
| Net income available to Genworth Financial, Inc.'s common stockholders | \$ 47 | \$ 52 | \$ (5) |

The following table presents the net cash flows from operating activities for the three months ended March 31, 2012 to reflect the impact of the accounting change related to reserves that was adopted on January 1, 2012:

| (Amounts in millions) | As Reported Under New Policy | As Computed Under Previous Policy | Effect of Change |
|-----------------------------------------------------------------------------------|------------------------------------|-----------------------------------------|---------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 80 | \$ 85 | \$ (5) |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Amortization of fixed maturity discounts and premiums and limited partnerships | (19) | (19) | |
| Net investment losses | (35) | (35) | |
| Charges assessed to policyholders | (187) | (187) | |

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| | | | |
|------------------------------------------------------------------------------------------|----------|----------|-----|
| Acquisition costs deferred | (154) | (154) | |
| Amortization of deferred acquisition costs and intangibles | 272 | 272 | |
| Deferred income taxes | 26 | 28 | (2) |
| Net decrease in trading securities, held-for-sale investments and derivative instruments | (45) | (45) | |
| Stock-based compensation expense | 9 | 9 | |
| Change in certain assets and liabilities: | | | |
| Accrued investment income and other assets | (112) | (112) | |
| Insurance reserves | 369 | 362 | 7 |
| Current tax liabilities | (86) | (86) | |
| Other liabilities and policy-related balances | (370) | (370) | |
| Net cash from operating activities | \$ (252) | \$ (252) | \$ |

Table of Contents**GENWORTH FINANCIAL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)*****Accounting Pronouncements Not Yet Adopted***

In December 2011, the FASB issued new accounting guidance for disclosures about offsetting assets and liabilities. The new guidance requires an entity to disclose information about offsetting and related arrangements to enable users to understand the effect of those arrangements on its financial position. These new disclosure requirements will be effective for us on January 1, 2013 and are not expected to have a material impact on our consolidated financial statements.

(3) Earnings Per Share

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

| (Amounts in millions, except per share amounts) | Three months ended March 31, | |
|---------------------------------------------------------------------------------------|---------------------------------|---------|
| | 2012 | 2011 |
| Net income | \$ 80 | \$ 93 |
| Less: net income attributable to noncontrolling interests | 33 | 34 |
| Net income available to Genworth Financial, Inc. s common stockholders | \$ 47 | \$ 59 |
| Basic per common share: | | |
| Net income | \$ 0.16 | \$ 0.19 |
| Less: net income attributable to noncontrolling interests | 0.07 | 0.07 |
| Net income available to Genworth Financial, Inc. s common stockholders ⁽¹⁾ | \$ 0.09 | \$ 0.12 |
| Diluted per common share: | | |
| Net income | \$ 0.16 | \$ 0.19 |
| Less: net income attributable to noncontrolling interests | 0.07 | 0.07 |
| Net income available to Genworth Financial, Inc. s common stockholders ⁽¹⁾ | \$ 0.09 | \$ 0.12 |
| Weighted-average shares used in basic earnings per common share calculations | 491.2 | 490.1 |
| Potentially dilutive securities: | | |
| Stock options, restricted stock units and stock appreciation rights | 4.5 | |