GENWORTH FINANCIAL INC
Form 10-Q
April 30, 2014
**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014**

**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**<br>**(State or Other Jurisdiction of**<br><br>**Incorporation or Organization)** | **80-0873306**<br>**(I.R.S. Employer**<br><br>**Identification Number)** |
| **6620 West Broad Street**<br><br>**Richmond, Virginia**<br>**(Address of Principal Executive Offices)** | **23230**<br>**(Zip Code)** |

**(804) 281-6000**

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

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

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

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

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

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

As of April 23, 2014, 496,280,815 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

## TABLE OF CONTENTS

Table of Contents

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

| | March 31, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | $ 60,244 | $ 58,629 |
| Equity securities available-for-sale, at fair value | 349 | 341 |
| Commercial mortgage loans | 5,894 | 5,899 |
| Restricted commercial mortgage loans related to securitization entities | 227 | 233 |
| Policy loans | 1,438 | 1,434 |
| Other invested assets | 1,875 | 1,686 |
| Restricted other invested assets related to securitization entities, at fair value | 398 | 391 |
| Total investments | 70,425 | 68,613 |
| Cash and cash equivalents | 4,360 | 4,214 |
| Accrued investment income | 752 | 678 |
| Deferred acquisition costs | 5,177 | 5,278 |
| Intangible assets | 327 | 399 |
| Goodwill | 866 | 867 |
| Reinsurance recoverable | 17,234 | 17,219 |
| Other assets | 691 | 639 |
| Separate account assets | 9,933 | 10,138 |
| Total assets | $ 109,765 | $ 108,045 |
| Liabilities and stockholders equity | | |
| Liabilities: | | |
| Future policy benefits | $ 34,076 | $ 33,705 |
| Policyholder account balances | 25,881 | 25,528 |
| Liability for policy and contract claims | 7,156 | 7,204 |
| Unearned premiums | 4,075 | 4,107 |
| Other liabilities ($50 other liabilities related to securitization entities) | 3,777 | 4,096 |
| Borrowings related to securitization entities ($79 and $75 at fair value) | 239 | 242 |
| Non-recourse funding obligations | 2,030 | 2,038 |
| Long-term borrowings | 5,150 | 5,161 |

| | | |
|---|---|---|
| Deferred tax liability | 714 | 206 |
| Separate account liabilities | 9,933 | 10,138 |
| Total liabilities | 93,031 | 92,425 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Class A common stock, $0.001 par value; 1.5 billion shares authorized; 585 million and 583 million shares issued as of March 31, 2014 and December 31, 2013, respectively; 496 million and 495 million shares outstanding as of March 31, 2014 and December 31, 2013, respectively | 1 | 1 |
| Additional paid-in capital | 12,124 | 12,127 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized investment gains (losses): | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,606 | 914 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 18 | 12 |
| Net unrealized investment gains (losses) | 1,624 | 926 |
| Derivatives qualifying as hedges | 1,538 | 1,319 |
| Foreign currency translation and other adjustments | 321 | 297 |
| Total accumulated other comprehensive income (loss) | 3,483 | 2,542 |
| Retained earnings | 2,607 | 2,423 |
| Treasury stock, at cost (88 million shares as of March 31, 2014 and December 31, 2013) | (2,700) | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 15,515 | 14,393 |
| Noncontrolling interests | 1,219 | 1,227 |
| Total stockholders equity | 16,734 | 15,620 |
| Total liabilities and stockholders equity | $ 109,765 | $ 108,045 |

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, | |
|---|---|---|
| | **2014** | **2013** |
| Revenues: | | |
| Premiums | $ 1,307 | $ 1,261 |
| Net investment income | 805 | 814 |
| Net investment gains (losses) | (17) | (61) |
| Insurance and investment product fees and other | 227 | 289 |
| Total revenues | 2,322 | 2,303 |
| Benefits and expenses: | | |
| Benefits and other changes in policy reserves | 1,194 | 1,201 |
| Interest credited | 183 | 184 |
| Acquisition and operating expenses, net of deferrals | 378 | 433 |
| Amortization of deferred acquisition costs and intangibles | 134 | 122 |
| Interest expense | 127 | 126 |
| Total benefits and expenses | 2,016 | 2,066 |
| Income from continuing operations before income taxes | 306 | 237 |
| Provision for income taxes | 87 | 76 |
| Income from continuing operations | 219 | 161 |
| Loss from discontinued operations, net of taxes | | (20) |
| Net income | 219 | 141 |
| Less: net income attributable to noncontrolling interests | 35 | 38 |
| Net income available to Genworth Financial, Inc. s common stockholders | $ 184 | $ 103 |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | |
| Basic | $ 0.37 | $ 0.25 |
| Diluted | $ 0.37 | $ 0.25 |

| | | |
|---|---|---|
| Net income available to Genworth Financial, Inc. s common stockholders per common share: | | |
| Basic | $ 0.37 | $ 0.21 |
| Diluted | $ 0.37 | $ 0.21 |
| Weighted-average common shares outstanding: | | |
| Basic | 495.8 | 492.5 |
| Diluted | 502.7 | 496.8 |
| Supplemental disclosures: | | |
| Total other-than-temporary impairments | $ (1) | $ (12) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | |
| Net other-than-temporary impairments | (1) | (12) |
| Other investments gains (losses) | (16) | (49) |
| Total net investment gains (losses) | $ (17) | $ (61) |

See Notes to Condensed Consolidated Financial Statements

4

Table of Contents

**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Amounts in millions)**

**(Unaudited)**

| | Three months ended March 31, 2014 | Three months ended March 31, 2013 |
|---|---|---|
| Net income | $ 219 | $ 141 |
| Other comprehensive income (loss), net of taxes: | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 706 | (217) |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 6 | 26 |
| Derivatives qualifying as hedges | 219 | (110) |
| Foreign currency translation and other adjustments | (21) | (104) |
| Total other comprehensive income (loss) | 910 | (405) |
| Total comprehensive income (loss) | 1,129 | (264) |
| Less: comprehensive income attributable to noncontrolling interests | 4 | 11 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ 1,125 | $ (275) |

See Notes to Condensed Consolidated Financial Statements

5

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, 2013 | $ 1 | $ 12,127 | $ 2,542 | $ 2,423 | $ (2,700) | $ 14,393 | $ 1,227 | $ 15,620 |
| Comprehensive income (loss): | | | | | | | | |
| Net income | | | | 184 | | 184 | 35 | 219 |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | | | 692 | | | 692 | 14 | 706 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | | 6 | | | 6 | | 6 |
| Derivatives qualifying as hedges | | | 219 | | | 219 | | 219 |
| Foreign currency translation and other adjustments | | | 24 | | | 24 | (45) | (21) |
| Total comprehensive income (loss) | | | | | | 1,125 | 4 | 1,129 |
| Dividends to noncontrolling interests | | | | | | | (13) | (13) |
| Stock-based compensation expense and exercises and other | | (3) | | | | (3) | 1 | (2) |
| Balances as of March 31, 2014 | $ 1 | $ 12,124 | $ 3,483 | $ 2,607 | $ (2,700) | $ 15,515 | $ 1,219 | $ 16,734 |
| | $ 1 | $ 12,127 | $ 5,202 | $ 1,863 | $ (2,700) | $ 16,493 | $ 1,288 | $ 17,781 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Balances as of December 31, 2012 | | | | | | | | |
| Comprehensive income (loss): | | | | | | | | |
| Net income | | | | 103 | | 103 | 38 | 141 |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | | | (221) | | | (221) | 4 | (217) |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | | | 26 | | | 26 | | 26 |
| Derivatives qualifying as hedges | | | (110) | | | (110) | | (110) |
| Foreign currency translation and other adjustments | | | (73) | | | (73) | (31) | (104) |
| Total comprehensive income (loss) | | | | | | (275) | 11 | (264) |
| Dividends to noncontrolling interests | | | | | | | (13) | (13) |
| Stock-based compensation expense and exercises and other | | 4 | | | | 4 | 1 | 5 |
| Balances as of March 31, 2013 | $ 1 | $ 12,131 | $ 4,824 | $ 1,966 | $ (2,700) | $ 16,222 | $ 1,287 | $ 17,509 |

See Notes to Condensed Consolidated Financial Statements

6

Table of Contents

**GENWORTH FINANCIAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Amounts in millions)**

**(Unaudited)**

| | Three months ended March 31, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 219 | $ 141 |
| Less loss from discontinued operations, net of taxes | | 20 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | (28) | (5) |
| Net investment losses (gains) | 17 | 61 |
| Charges assessed to policyholders | (187) | (202) |
| Acquisition costs deferred | (119) | (105) |
| Amortization of deferred acquisition costs and intangibles | 134 | 122 |
| Deferred income taxes | 17 | (182) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | 26 | (27) |
| Stock-based compensation expense | 8 | 9 |
| Change in certain assets and liabilities: | | |
| Accrued investment income and other assets | (109) | (42) |
| Insurance reserves | 550 | 541 |
| Current tax liabilities | (182) | 202 |
| Other liabilities and other policy-related balances | (285) | (474) |
| Cash from operating activities discontinued operations | | 1 |
| Net cash from operating activities | 61 | 60 |
| Cash flows from investing activities: | | |
| Proceeds from maturities and repayments of investments: | | |
| Fixed maturity securities | 1,135 | 1,212 |
| Commercial mortgage loans | 139 | 212 |
| Restricted commercial mortgage loans related to securitization entities | 7 | 17 |
| Proceeds from sales of investments: | | |
| Fixed maturity and equity securities | 708 | 1,310 |
| Purchases and originations of investments: | | |
| Fixed maturity and equity securities | (2,172) | (2,069) |
| Commercial mortgage loans | (132) | (203) |
| Other invested assets, net | 111 | (26) |
| Cash from investing activities discontinued operations | | |

| | | |
|---|---|---|
| Net cash from investing activities | (204) | 453 |
| Cash flows from financing activities: | | |
| Deposits to universal life and investment contracts | 814 | 445 |
| Withdrawals from universal life and investment contracts | (505) | (678) |
| Redemption of non-recourse funding obligations | (8) | (4) |
| Repayment of borrowings related to securitization entities | (7) | (17) |
| Dividends paid to noncontrolling interests | (13) | (13) |
| Other, net | (12) | (32) |
| Cash from financing activities discontinued operations | | |
| Net cash from financing activities | 269 | (299) |
| Effect of exchange rate changes on cash and cash equivalents | 20 | (48) |
| Net change in cash and cash equivalents | 146 | 166 |
| Cash and cash equivalents at beginning of period | 4,214 | 3,653 |
| Cash and cash equivalents at end of period | 4,360 | 3,819 |
| Less cash and cash equivalents of discontinued operations at end of period | | 22 |
| Cash and cash equivalents of continuing operations at end of period | $ 4,360 | $ 3,797 |

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 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, under the name Sub XLVI, Inc., and was renamed Genworth Financial, Inc. ( Genworth Financial ) upon the completion of the reorganization.

References to Genworth, the Company, we or our in the accompanying condensed consolidated financial statement and these notes thereto have the following meanings, unless the context otherwise requires:

- For periods prior to April 1, 2013: Genworth Holdings and its subsidiaries
- For periods from and after April 1, 2013: Genworth Financial and its subsidiaries

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 ( VIE ). 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 in the United States. Our primary products include life insurance, long-term care insurance and fixed annuities.

- ***International Mortgage Insurance.*** We are a leading provider of mortgage insurance products and related services in Canada and Australia and also participate in select European and other countries. Our products predominantly insure prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. We also selectively 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.

***International Protection.*** We are a leading provider of payment protection coverages (referred to as lifestyle protection) in multiple European countries and have operations in select other 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.

***Runoff.*** The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products.

8

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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.

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 non-core businesses that are managed outside of our operating segments, including discontinued operations.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) and rules and regulations of the U.S. Securities and Exchange Commission ( SEC ). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these 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 2013 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

**(2) Accounting Changes**

***Accounting Pronouncement Recently Adopted***

On January 1, 2014, we adopted new accounting guidance on the scope, measurement and disclosure requirements for investment companies. The new guidance clarified the characteristics of an investment company, provided comprehensive guidance for assessing whether an entity is an investment company, required investment companies to measure noncontrolling ownership interest in other investment companies at fair value rather than using the equity method of accounting and required additional disclosures. The adoption of this accounting guidance did not have any impact on our consolidated financial statements.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### (3) Earnings Per Share

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

| | Three months ended March 31, | |
|---|---|---|
| **(Amounts in millions, except per share amounts)** | **2014** | **2013** |
| Weighted-average shares used in basic earnings per common share calculations | 495.8 | 492.5 |
| Potentially dilutive securities: | | |
| Stock options, restricted stock units and stock appreciation rights | 6.9 | 4.3 |
| Weighted-average shares used in diluted earnings per common share calculations | 502.7 | 496.8 |
| Income from continuing operations: | | |
| Income from continuing operations | $ 219 | $ 161 |
| Less: income from continuing operations attributable to noncontrolling interests | 35 | 38 |
| Income from continuing operations available to Genworth Financial, Inc. s common stockholders | $ 184 | $ 123 |
| Basic per common share | $ 0.37 | $ 0.25 |
| Diluted per common share | $ 0.37 | $ 0.25 |
| Loss from discontinued operations: | | |
| Loss from discontinued operations, net of taxes | $ | $ (20) |
| Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests | | |
| Loss from discontinued operations, net of taxes, available to Genworth Financial, Inc. s common stockholders | $ | $ (20) |
| Basic per common share | $ | $ (0.04) |
| Diluted per common share | $ | $ (0.04) |
| Net income: | | |
| Income from continuing operations | $ 219 | $ 161 |
| Loss from discontinued operations, net of taxes | | (20) |

| | | |
|---|---|---|
| Net income | 219 | 141 |
| Less: net income attributable to noncontrolling interests | 35 | 38 |
| Net income available to Genworth Financial, Inc. s common stockholders | $ 184 | $ 103 |
| Basic per common share | $ 0.37 | $ 0.21 |
| Diluted per common share | $ 0.37 | $ 0.21 |

10

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## (4) Investments

*(a) Net Investment Income*

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

| (Amounts in millions) | Three months ended March 31, 2014 | 2013 |
|---|---|---|
| Fixed maturity securities taxable | $ 648 | $ 656 |
| Fixed maturity securities non-taxable | 3 | 2 |
| Commercial mortgage loans | 83 | 82 |
| Restricted commercial mortgage loans related to securitization entities | 4 | 7 |
| Equity securities | 4 | 4 |
| Other invested assets | 50 | 48 |
| Restricted other invested assets related to securitization entities | 1 | |
| Policy loans | 31 | 32 |
| Cash, cash equivalents and short-term investments | 5 | 7 |
| Gross investment income before expenses and fees | 829 | 838 |
| Expenses and fees | (24) | (24) |
| Net investment income | $ 805 | $ 814 |

*(b) Net Investment Gains (Losses)*

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

| (Amounts in millions) | Three months ended March 31, 2014 | 2013 |
|---|---|---|
| Available-for-sale securities: | | |
| Realized gains | $ 7 | $ 40 |
| Realized losses | (23) | (66) |
| Net realized gains (losses) on available-for-sale securities | (16) | (26) |

| | | |
|---|---|---|
| Impairments: | | |
| Total other-than-temporary impairments | (1) | (12) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | |
| Net other-than-temporary impairments | (1) | (12) |
| Trading securities | 12 | 10 |
| Commercial mortgage loans | 3 | 2 |
| Net gains (losses) related to securitization entities | 6 | 7 |
| Derivative instruments [1] | (21) | (42) |
| Contingent consideration adjustment | | 1 |
| Other | | (1) |
| Net investment gains (losses) | $ (17) | $ (61) |

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended March 31, 2014 and 2013 was $265 million and $577 million, respectively, which was approximately 92% and 90%, respectively, of book value.

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

| **(Amounts in millions)** | **2014** | **2013** |
|---|---|---|
| Beginning balance | $ 101 | $ 387 |
| Additions: | | |
| Other-than-temporary impairments not previously recognized | | 2 |
| Increases related to other-than-temporary impairments previously recognized | | 4 |
| Reductions: | | |
| Securities sold, paid down or disposed | (2) | (142) |
| Ending balance | $ 99 | $ 251 |

*(c) Unrealized Investment Gains and Losses*

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

| **(Amounts in millions)** | **March 31, 2014** | **December 31, 2013** |
|---|---|---|
| Net unrealized gains (losses) on investment securities: | | |
| Fixed maturity securities | $ 3,782 | $ 2,346 |
| Equity securities | 35 | 23 |
| Other invested assets | (4) | (4) |
| Subtotal | 3,813 | 2,365 |
| | (1,221) | (869) |

| | | | | |
|---|---|---|---|---|
| Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves | | | | |
| Income taxes, net | | (901) | | (517) |
| Net unrealized investment gains (losses) | | 1,691 | | 979 |
| Less: net unrealized investment gains (losses) attributable to noncontrolling interests | | 67 | | 53 |
| Net unrealized investment gains (losses) attributable to Genworth Financial, Inc. | $ | 1,624 | $ | 926 |

12

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| (Amounts in millions) | 2014 | 2013 |
|---|---|---|
| Beginning balance | $ 926 | $ 2,638 |
| Unrealized gains (losses) arising during the period: | | |
| Unrealized gains (losses) on investment securities | 1,431 | (427) |
| Adjustment to deferred acquisition costs | (99) | 16 |
| Adjustment to present value of future profits | (52) | 1 |
| Adjustment to sales inducements | (13) | (3) |
| Adjustment to benefit reserves | (188) | 91 |
| Provision for income taxes | (378) | 106 |
| Change in unrealized gains (losses) on investment securities | 701 | (216) |
| Reclassification adjustments to net investment (gains) losses, net of taxes of $(6) and $(13) | 11 | 25 |
| Change in net unrealized investment gains (losses) | 712 | (191) |
| Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests | 14 | 4 |
| Ending balance | $ 1,624 | $ 2,443 |

*(d) Fixed Maturity and Equity Securities*

As of March 31, 2014, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | Amortized cost or cost | Not other-than-temporarily impaired | Other-than-temporarily impaired | Not other-than-temporarily impaired | Other-than-temporarily impaired | Fair value |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 4,819 | $ 533 | $ | $ (138) | $ | $ 5,214 |
| Tax-exempt | 329 | 15 | | (27) | | 317 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Government non-U.S. | 2,043 | 121 | | (11) | | 2,153 |
| U.S. corporate | 23,897 | 2,333 | 21 | (191) | | 26,060 |
| Corporate non-U.S. | 14,337 | 888 | | (84) | | 15,141 |
| Residential mortgage-backed | 4,859 | 278 | 12 | (44) | (3) | 5,102 |
| Commercial mortgage-backed | 2,812 | 99 | 3 | (33) | | 2,881 |
| Other asset-backed | 3,397 | 36 | | (57) | | 3,376 |
| Total fixed maturity securities | 56,493 | 4,303 | 36 | (585) | (3) | 60,244 |
| Equity securities | 315 | 42 | | (8) | | 349 |
| Total available-for-sale securities | $ 56,808 | $ 4,345 | $ 36 | $ (593) | $ (3) | $ 60,593 |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

As of December 31, 2013, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

| | | Gross unrealized gains | | Gross unrealized losses | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Amortized cost or cost** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Not other-than-temporarily impaired** | **Other-than-temporarily impaired** | **Fair value** |
| Fixed maturity securities: | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 4,710 | $ 331 | $ | $ (231) | $ | $ 4,810 |
| Tax-exempt | 324 | 7 | | (36) | | 295 |
| Government non-U.S. | 2,057 | 104 | | (15) | | 2,146 |
| U.S. corporate | 23,614 | 1,761 | 19 | (359) | | 25,035 |
| Corporate non-U.S. | 14,489 | 738 | | (156) | | 15,071 |
| Residential mortgage-backed | 5,058 | 232 | 9 | (70) | (4) | 5,225 |
| Commercial mortgage-backed | 2,886 | 75 | 2 | (62) | (3) | 2,898 |
| Other asset-backed | 3,171 | 35 | | (57) | | 3,149 |
| Total fixed maturity securities | 56,309 | 3,283 | 30 | (986) | (7) | 58,629 |
| Equity securities | 318 | 36 | | (13) | | 341 |
| Total available-for-sale securities | $ 56,627 | $ 3,319 | $ 30 | $ (999) | $ (7) | $ 58,970 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2014:

| | Less than 12 months | | | 12 months or more | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollar amounts in millions) | Fair value | Gross unrealized losses | Number of securities | Fair value | Gross unrealized losses (1) | Number of securities | Fair value | Gross unrealized losses (1) | Number of securities |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 472 | $ (49) | 25 | $ 453 | $ (89) | 15 | $ 925 | $ (138) | 40 |
| Tax-exempt | 13 | (1) | 8 | 98 | (26) | 9 | 111 | (27) | 17 |
| Government non-U.S. | 364 | (10) | 39 | 6 | (1) | 4 | 370 | (11) | 43 |
| U.S. corporate | 3,030 | (117) | 464 | 677 | (74) | 82 | 3,707 | (191) | 546 |
| Corporate non-U.S. | 1,832 | (58) | 245 | 380 | (26) | 45 | 2,212 | (84) | 290 |
| Residential mortgage-backed | 756 | (27) | 98 | 140 | (20) | 87 | 896 | (47) | 185 |
| Commercial mortgage-backed | 506 | (20) | 62 | 292 | (13) | 51 | 798 | (33) | 113 |
| Other asset-backed | 968 | (14) | 122 | 146 | (43) | 17 | 1,114 | (57) | 139 |
| Subtotal, fixed maturity securities | 7,941 | (296) | 1,063 | 2,192 | (292) | 310 | 10,133 | (588) | 1,373 |
| Equity securities | 83 | (8) | 26 | | | | 83 | (8) | 26 |
| Total for securities in an unrealized loss position | $ 8,024 | $ (304) | 1,089 | $ 2,192 | $ (292) | 310 | $ 10,216 | $ (596) | 1,399 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 7,919 | $ (288) | 1,061 | $ 1,997 | $ (205) | 260 | $ 9,916 | $ (493) | 1,321 |
| 20%-50% Below cost | 22 | (8) | 2 | 183 | (72) | 32 | 205 | (80) | 34 |
| >50% Below cost | | | | 12 | (15) | 18 | 12 | (15) | 18 |
| Total fixed maturity securities | 7,941 | (296) | 1,063 | 2,192 | (292) | 310 | 10,133 | (588) | 1,373 |
| % Below cost equity securities: | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| <20% Below cost | 83 | (8) | 26 | | | | 83 | (8) | 26 |
| Total equity securities | 83 | (8) | 26 | | | | 83 | (8) | 26 |
| Total for securities in an unrealized loss position | $ 8,024 | $ (304) | 1,089 | $ 2,192 | $ (292) | 310 | $ 10,216 | $ (596) | 1,399 |
| Investment grade | $ 7,778 | $ (295) | 1,026 | $ 1,842 | $ (256) | 221 | $ 9,620 | $ (551) | 1,247 |
| Below investment grade (2) | 246 | (9) | 63 | 350 | (36) | 89 | 596 | (45) | 152 |
| Total for securities in an unrealized loss position | $ 8,024 | $ (304) | 1,089 | $ 2,192 | $ (292) | 310 | $ 10,216 | $ (596) | 1,399 |

(1) Amounts included $3 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts that have been in a continuous loss position for 12 months or more included $3 million of unrealized losses on other-than-temporarily impaired securities.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

As indicated in the table above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to lower credit ratings since acquisition for corporate securities across various industry sectors and an increase in U.S. Treasury yields since these securities were purchased. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 4% as of March 31, 2014.

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

Of the $205 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was A+ and approximately 91% of the unrealized losses were related to investment grade securities as of March 31, 2014. These unrealized losses were attributable to the lower credit ratings for these securities since acquisition, primarily associated with corporate securities in the finance and insurance and utilities and energy sectors and structured securities, in addition to U.S. government, agencies and government-sponsored enterprises securities resulting from an increase in U.S. Treasury yields since these securities were purchased. The average fair value percentage below cost for these securities was approximately 9% as of March 31, 2014. See below for additional discussion related to fixed maturity securities that have been in a continuous loss position for 12 months or more with a fair value that was more than 20% below cost.

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous loss position for 12 months or more by asset class as of March 31, 2014:

| | Investment Grade | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 20% to 50% | | | | Greater than 50% | | | |
| **(Dollar amounts in millions)** | **Fair value** | **Gross unrealized losses** | **% of total gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **% of total gross unrealized losses** | **Number of securities** |
| Fixed maturity securities: | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 37 | $ (9) | 2% | 1 | $ | $ | % | |
| Tax-exempt | 60 | (19) | 3 | 6 | | | | |
| Corporate non-U.S. | 10 | (3) | 1 | 3 | | | | |
| Structured securities: | | | | | | | | |
| Residential mortgage-backed | | | | | 5 | (5) | 1 | 7 |
| Other asset-backed | 54 | (33) | 6 | 4 | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total structured securities | 54 | | (33) | 6 | 4 | 5 | | (5) | 1 | 7 |
| Total | $ 161 | $ | (64) | 12% | 14 | $ 5 | $ | (5) | 1% | 7 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| | Below Investment Grade | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 20% to 50% | | | | Greater than 50% | | | |
| **(Dollar amounts in millions)** | **Fair value** | **Gross unrealized losses** | **% of total gross unrealized losses** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **% of total gross unrealized losses** | **Number of securities** |
| Fixed maturity securities: | | | | | | | | |
| U.S. corporate | $ 9 | $ (3) | 1% | 2 | $ | $ | % | |
| Structured securities: | | | | | | | | |
| Residential mortgage-backed | 4 | (2) | | 11 | 1 | (2) | | 10 |
| Commercial mortgage-backed | 9 | (3) | 1 | 5 | | | | |
| Other asset-backed | | | | | 6 | (8) | 2 | 1 |
| Total structured securities | 13 | (5) | 1 | 16 | 7 | (10) | 2 | 11 |
| Total | $ 22 | $ (8) | 2% | 18 | $ 7 | $ (10) | 2% | 11 |

For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of cash flows to be collected. We do not intend to sell nor do we expect that we will be required to sell these securities prior to recovering our amortized cost. See below for further discussion of gross unrealized losses by asset class.

*U. S. government, agencies and government-sponsored enterprises*

As indicated in the table above, $9 million of gross unrealized losses were related to one U.S. government, agencies and government-sponsored enterprises security that had been in a continuous loss position for more than 12 months and was greater than 20% below cost. The unrealized losses for the U.S. government, agencies and government-sponsored enterprises security represented a long-term, zero coupon U.S. Treasury bond. An increase in U.S. Treasury yields since the security was purchased resulted in a decrease in fair value. We expect this security to accrete up to par value over time.

*Structured Securities*

Of the $53 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, $2 million related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

While we considered the length of time each security had been in an unrealized loss position, the extent of the unrealized loss position and any significant declines in fair value subsequent to the balance sheet date in our evaluation of impairment for each of these individual securities, the primary factor in our evaluation of impairment is the expected performance for each of these securities. Our evaluation of expected performance is based on the historical performance of the associated securitization trust as well as the historical performance of the underlying collateral. Our examination of the historical performance of the securitization trust included consideration of the following factors for each class of securities issued by the trust: i) the payment history,

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

including failure to make scheduled payments; ii) current payment status; iii) current and historical outstanding balances; iv) current levels of subordination and losses incurred to date; and v) characteristics of the underlying collateral. Our examination of the historical performance of the underlying collateral included: i) historical default rates, delinquency rates, voluntary and involuntary prepayments and severity of losses, including recent trends in this information; ii) current payment status; iii) loan to collateral value ratios, as applicable; iv) vintage; and v) other underlying characteristics such as current financial condition.

We used our assessment of the historical performance of both the securitization trust and the underlying collateral for each security, along with third-party sources, when available, to develop our best estimate of cash flows expected to be collected. These estimates reflect projections for future delinquencies, prepayments, defaults and losses for the assets that collateralize the securitization trust and are used to determine the expected cash flows for our security, based on the payment structure of the trust. Our projection of expected cash flows is primarily based on the expected performance of the underlying assets that collateralize the securitization trust and is not directly impacted by the rating of our security. While we consider the rating of the security as an indicator of the financial condition of the issuer, this factor does not have a significant impact on our expected cash flows for each security. In limited circumstances, our expected cash flows include expected payments from reliable financial guarantors where we believe the financial guarantor will have sufficient assets to pay claims under the financial guarantee when the cash flows from the securitization trust are not sufficient to make scheduled payments. We then discount the expected cash flows using the effective yield of each security to determine the present value of expected cash flows.

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of March 31, 2014.

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of December 31, 2013:

| | Less than 12 months | | | 12 months or more | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollar amounts in millions) | Fair value | Gross unrealized losses | Number of securities | Fair value | Gross unrealized losses (1) | Number of securities | Fair value | Gross unrealized losses (1) | Number of securities |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 796 | $ (109) | 32 | $ 335 | $ (122) | 13 | $ 1,131 | $ (231) | 45 |
| Tax-exempt | 82 | (3) | 26 | 97 | (33) | 9 | 179 | (36) | 35 |
| Government non-U.S. | 479 | (15) | 60 | | | | 479 | (15) | 60 |
| U.S. corporate | 4,774 | (260) | 707 | 663 | (99) | 82 | 5,437 | (359) | 789 |
| Corporate non-U.S. | 3,005 | (127) | 379 | 287 | (29) | 34 | 3,292 | (156) | 413 |
| Residential mortgage-backed | 1,052 | (55) | 139 | 157 | (19) | 92 | 1,209 | (74) | 231 |
| Commercial mortgage-backed | 967 | (42) | 107 | 370 | (23) | 62 | 1,337 | (65) | 169 |
| Other asset-backed | 1,089 | (17) | 133 | 145 | (40) | 17 | 1,234 | (57) | 150 |
| Subtotal, fixed maturity securities | 12,244 | (628) | 1,583 | 2,054 | (365) | 309 | 14,298 | (993) | 1,892 |
| Equity securities | 95 | (13) | 41 | | | | 95 | (13) | 41 |
| Total for securities in an unrealized loss position | $ 12,339 | $ (641) | 1,624 | $ 2,054 | $ (365) | 309 | $ 14,393 | $ (1,006) | 1,933 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 12,009 | $ (547) | 1,571 | $ 1,575 | $ (163) | 238 | $ 13,584 | $ (710) | 1,809 |
| 20%-50% Below cost | 235 | (81) | 12 | 466 | (187) | 51 | 701 | (268) | 63 |
| >50% Below cost | | | | 13 | (15) | 20 | 13 | (15) | 20 |
| Total fixed maturity securities | 12,244 | (628) | 1,583 | 2,054 | (365) | 309 | 14,298 | (993) | 1,892 |
| % Below cost equity securities: | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| <20% Below cost | 87 | (11) | 40 | | | | 87 | (11) | 40 |
| 20%-50% Below cost | 8 | (2) | 1 | | | | 8 | (2) | 1 |
| Total equity securities | 95 | (13) | 41 | | | | 95 | (13) | 41 |
| Total for securities in an unrealized loss position | $ 12,339 | $ (641) | 1,624 | $ 2,054 | $ (365) | 309 | $ 14,393 | $ (1,006) | 1,933 |
| Investment grade | $ 11,896 | $ (616) | 1,515 | $ 1,631 | $ (315) | 208 | $ 13,527 | $ (931) | 1,723 |
| Below investment grade (2) | 443 | (25) | 109 | 423 | (50) | 101 | 866 | (75) | 210 |
| Total for securities in an unrealized loss position | $ 12,339 | $ (641) | 1,624 | $ 2,054 | $ (365) | 309 | $ 14,393 | $ (1,006) | 1,933 |

(1) Amounts included $7 million of unrealized losses on other-than-temporarily impaired securities.

(2) Amounts that have been in a continuous loss position for 12 months or more included $7 million of unrealized losses on other-than-temporarily impaired securities.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of March 31, 2014 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

| (Amounts in millions) | Amortized cost or cost | Fair value |
|---|---|---|
| Due one year or less | $ 3,089 | $ 3,118 |
| Due after one year through five years | 9,689 | 10,257 |
| Due after five years through ten years | 12,345 | 12,915 |
| Due after ten years | 20,302 | 22,595 |
| Subtotal | 45,425 | 48,885 |
| Residential mortgage-backed | 4,859 | 5,102 |
| Commercial mortgage-backed | 2,812 | 2,881 |
| Other asset-backed | 3,397 | 3,376 |
| Total | $ 56,493 | $ 60,244 |

As of March 31, 2014, $6,076 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of March 31, 2014, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 24%, 19% and 13%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States and internationally, and is not dependent on the economic stability of one particular region.

As of March 31, 2014, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

*(e) Commercial Mortgage Loans*

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

20

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Property type: | | | | |
| Retail | $ 2,103 | 36% | $ 2,073 | 35% |
| Industrial | 1,580 | 27 | 1,581 | 27 |
| Office | 1,509 | 25 | 1,558 | 26 |
| Apartments | 493 | 8 | 491 | 8 |
| Mixed use/other | 239 | 4 | 229 | 4 |
| Subtotal | 5,924 | 100% | 5,932 | 100% |
| Allowance for losses | (30) | | (33) | |
| Total | $ 5,894 | | $ 5,899 | |

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Geographic region: | | | | |
| Pacific | $ 1,601 | 27% | $ 1,590 | 27% |
| South Atlantic | 1,526 | 26 | 1,535 | 26 |
| Middle Atlantic | 823 | 14 | 828 | 14 |
| Mountain | 494 | 8 | 478 | 8 |
| East North Central | 399 | 7 | 404 | 7 |
| West North Central | 370 | 6 | 377 | 6 |
| New England | 335 | 6 | 337 | 6 |
| West South Central | 238 | 4 | 241 | 4 |
| East South Central | 138 | 2 | 142 | 2 |
| Subtotal | 5,924 | 100% | 5,932 | 100% |

| | | |
|---|---|---|
| Allowance for losses | (30) | (33) |
| Total | $ 5,894 | $ 5,899 |

21

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **31 - 60 days past due** | **61 - 90 days past due** | **Greater than 90 days past due** | **Total past due** | **Current** | **Total** |
| Property type: | | | | | | |
| Retail | $ | $ 2 | $ 10 | $ 12 | $ 2,091 | $ 2,103 |
| Industrial | | | 18 | 18 | 1,562 | 1,580 |
| Office | 2 | | 9 | 11 | 1,498 | 1,509 |
| Apartments | | | | | 493 | 493 |
| Mixed use/other | | | | | 239 | 239 |
| Total recorded investment | $ 2 | $ 2 | $ 37 | $ 41 | $ 5,883 | $ 5,924 |
| % of total commercial mortgage loans | % | % | 1% | 1% | 99% | 100% |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **31 - 60 days past due** | **61 - 90 days past due** | **Greater than 90 days past due** | **Total past due** | **Current** | **Total** |
| Property type: | | | | | | |
| Retail | $ | $ | $ 10 | $ 10 | $ 2,063 | $ 2,073 |
| Industrial | 2 | 2 | 16 | 20 | 1,561 | 1,581 |
| Office | | | 6 | 6 | 1,552 | 1,558 |
| Apartments | | | | | 491 | 491 |
| Mixed use/other | 1 | | | 1 | 228 | 229 |
| Total recorded investment | $ 3 | $ 2 | $ 32 | $ 37 | $ 5,895 | $ 5,932 |
| % of total commercial mortgage loans | % | % | 1% | 1% | 99% | 100% |

As of March 31, 2014 and December 31, 2013, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of March 31, 2014 and December 31, 2013.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of March 31, 2014, our commercial mortgage loans greater than 90 days past due included loans with appraised values in excess of the recorded investment and the current recorded investment of these loans was expected to be recoverable.

During the three months ended March 31, 2014 and the year ended December 31, 2013, we modified or extended 3 and 33 commercial mortgage loans, respectively, with a total carrying value of $23 million and $165 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| | Three months ended March 31, | |
|---|---|---|
| **(Amounts in millions)** | **2014** | **2013** |
| Allowance for credit losses: | | |
| Beginning balance | $ 33 | $ 42 |
| Charge-offs | (1) | |
| Recoveries | | |
| Provision | (2) | (2) |
| Ending balance | $ 30 | $ 40 |
| Ending allowance for individually impaired loans | $ | $ |
| Ending allowance for loans not individually impaired that were evaluated collectively for impairment | $ 30 | $ 40 |
| Recorded investment: | | |
| Ending balance | $ 5,924 | $ 5,904 |
| Ending balance of individually impaired loans | $ 17 | $ |
| Ending balance of loans not individually impaired that were evaluated collectively for impairment | $ 5,907 | $ 5,904 |

As of March 31, 2014, we had individually impaired commercial mortgage loans included within the industrial property type with a recorded investment of $15 million, an unpaid principal balance of $16 million, charge-offs of $1 million and an average recorded investment of $15 million. As of March 31, 2014 and December 31, 2013, we had individually impaired commercial mortgage loans included within the retail property type with a recorded investment of $2 million, an unpaid principal balance of $3 million, charge-offs of $1 million, which were recorded in the second quarter of 2013, and an average recorded investment of $2 million.

In evaluating the credit quality of commercial mortgage loans, we assess the performance of the underlying loans using both quantitative and qualitative criteria. Certain risks associated with commercial mortgage loans can be evaluated by reviewing both the loan-to-value and debt service coverage ratio to understand both the probability of the borrower not being able to make the necessary loan payments as well as the ability to sell the underlying property for an amount that would enable us to recover our unpaid principal balance in the event of default by the borrower. The average loan-to-value ratio is based on our most recent estimate of the fair value for the underlying property which is evaluated at least annually and updated more frequently if necessary to better indicate risk associated with the loan. A lower loan-to-value indicates that our loan value is more likely to be recovered in the event of default by the borrower if the property was sold. The debt service coverage ratio is based on normalized annual net operating income of the property compared to the payments required under the terms of the loan. Normalization allows for the removal of annual one-time events such as capital expenditures, prepaid or late real estate tax payments or non-recurring third-party fees (such as legal, consulting or contract fees). This ratio is evaluated at least annually and updated more frequently if necessary to better indicate risk associated with the loan. A higher debt service coverage ratio indicates the borrower is less likely to default on the loan. The debt service coverage ratio should not be used without considering other factors associated with the borrower, such as the borrower s liquidity or access to other resources that may result in our expectation that the borrower will continue to make the future scheduled payments.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 0% - 50% | 51% - 60% | 61% - 75% | 76% - 100% | Greater than 100% (1) | Total |
| Property type: | | | | | | |
| Retail | $ 597 | $ 451 | $ 947 | $ 86 | $ 22 | $ 2,103 |
| Industrial | 448 | 238 | 781 | 79 | 34 | 1,580 |
| Office | 406 | 172 | 726 | 145 | 60 | 1,509 |
| Apartments | 204 | 87 | 186 | 16 | | 493 |
| Mixed use/other | 71 | 47 | 109 | 12 | | 239 |
| Total recorded investment | $ 1,726 | $ 995 | $ 2,749 | $ 338 | $ 116 | $ 5,924 |
| % of total | 29% | 17% | 46% | 6% | 2% | 100% |
| Weighted-average debt service coverage ratio | 2.12 | 2.03 | 1.55 | 1.04 | 0.52 | 1.75 |

(1) Included $17 million of impaired loans, $3 million of loans past due and not individually impaired and $96 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 119%.

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 0% - 50% | 51% - 60% | 61% - 75% | 76% - 100% | Greater than 100% (1) | Total |
| Property type: | | | | | | |
| Retail | $ 596 | $ 336 | $ 1,024 | $ 95 | $ 22 | $ 2,073 |
| Industrial | 430 | 237 | 748 | 146 | 20 | 1,581 |
| Office | 397 | 191 | 716 | 191 | 63 | 1,558 |
| Apartments | 201 | 86 | 176 | 27 | 1 | 491 |
| Mixed use/other | 71 | 36 | 110 | 12 | | 229 |
| Total recorded investment | $ 1,695 | $ 886 | $ 2,774 | $ 471 | $ 106 | $ 5,932 |

| | | | | | | |
|---|---|---|---|---|---|---|
| % of total | 28% | 15% | 47% | 8% | 2% | 100% |
| Weighted-average debt service coverage ratio | 2.14 | 1.79 | 1.66 | 1.03 | 0.63 | 1.75 |

(1) Included $2 million of impaired loans, $5 millions of delinquent loans and $99 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 119%.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | Less than 1.00 | 1.00 - 1.25 | 1.26 - 1.50 | 1.51 - 2.00 | Greater than 2.00 | Total |
| Property type: | | | | | | |
| Retail | $ 103 | $ 322 | $ 437 | $ 759 | $ 381 | $ 2,002 |
| Industrial | 193 | 106 | 293 | 701 | 287 | 1,580 |
| Office | 124 | 186 | 220 | 640 | 332 | 1,502 |
| Apartments | 13 | 38 | 107 | 182 | 153 | 493 |
| Mixed use/other | 16 | 8 | 32 | 118 | 65 | 239 |
| Total recorded investment | $ 449 | $ 660 | $ 1,089 | $ 2,400 | $ 1,218 | $ 5,816 |
| % of total | 8% | 11% | 19% | 41% | 21% | 100% |
| Weighted-average loan-to-value | 79% | 67% | 63% | 60% | 43% | 59% |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | Less than 1.00 | 1.00 - 1.25 | 1.26 - 1.50 | 1.51 - 2.00 | Greater than 2.00 | Total |
| Property type: | | | | | | |
| Retail | $ 106 | $ 314 | $ 374 | $ 779 | $ 399 | $ 1,972 |
| Industrial | 195 | 100 | 270 | 721 | 295 | 1,581 |
| Office | 131 | 181 | 225 | 637 | 376 | 1,550 |
| Apartments | 3 | 31 | 107 | 187 | 163 | 491 |
| Mixed use/other | 16 | 9 | 32 | 106 | 66 | 229 |
| Total recorded investment | $ 451 | $ 635 | $ 1,008 | $ 2,430 | $ 1,299 | $ 5,823 |
| % of total | 8% | 11% | 17% | 42% | 22% | 100% |
| Weighted-average loan-to-value | 80% | 68% | 63% | 60% | 43% | 59% |

As of March 31, 2014 and December 31, 2013, we had floating rate commercial mortgage loans of $108 million and $109 million, respectively.

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

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

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

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## (5) Derivative Instruments

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

The following table sets forth our positions in derivative instruments as of the dates indicated:

| | Derivative assets | | | Derivative liabilities | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| (Amounts in millions) | Balance sheet classification | March 31, 2014 | December 31, 2013 | Balance sheet classification | March 31, 2014 | December 31, 2013 |
| **Derivatives designated as hedges** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate swaps | Other invested assets | $ 159 | $ 121 | Other liabilities | $ 268 | $ 569 |
| Inflation indexed swaps | Other invested assets | | | Other liabilities | 63 | 60 |
| Foreign currency swaps | Other invested assets | 3 | 4 | Other liabilities | 2 | 2 |
| Forward bond purchase commitments | Other invested assets | 4 | | Other liabilities | | 13 |
| Total cash flow hedges | | 166 | 125 | | 333 | 644 |
| Fair value hedges: | | | | | | |
| Interest rate swaps | Other invested assets | | 1 | Other liabilities | | |
| Total fair value hedges | | | 1 | | | |
| Total derivatives designated as hedges | | 166 | 126 | | 333 | 644 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | | |
| Interest rate swaps | Other invested assets | 339 | 314 | Other liabilities | 41 | 6 |
| Interest rate swaps related to securitization entities | Restricted other invested assets | | | Other liabilities | 19 | 16 |
| Credit default swaps | Other invested assets | 9 | 11 | Other liabilities | | |
| Credit default swaps related to securitization entities | Restricted other invested assets | | | Other liabilities | 25 | 32 |
| Equity index options | Other invested assets | 11 | 12 | Other liabilities | | |
| Financial futures | Other invested assets | | | Other liabilities | | |
| Equity return swaps | Other invested assets | | | Other liabilities | | 1 |
| Other foreign currency contracts | Other invested assets | 5 | 8 | Other liabilities | 11 | 4 |
| GMWB embedded derivatives | Reinsurance recoverable (1) | 2 | (1) | Policyholder account balances (2) | 138 | 96 |
| Fixed index annuity embedded derivatives | Other assets (3) | | | Policyholder account balances (3) | 180 | 143 |
| Total derivatives not designated as hedges | | 366 | 344 | | 414 | 298 |
| Total derivatives | | $ 532 | $ 470 | | $ 747 | $ 942 |

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

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

(3) Represents the embedded derivatives associated with our fixed index annuity liabilities.

26

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The fair value of derivative positions presented above was not offset by the respective collateral amounts retained or provided under these agreements. The amounts recognized for derivative counterparty collateral retained by us was recorded in other invested assets with a corresponding amount recorded in other liabilities to represent our obligation to return the collateral retained by us.

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for GMWB and fixed index annuity embedded derivatives, the change between periods is best illustrated by the number of policies. The following tables represent activity associated with derivative instruments as of the dates indicated:

| (Notional in millions) | Measurement | December 31, 2013 | Additions | Maturities/ terminations | March 31, 2014 |
|---|---|---|---|---|---|
| **Derivatives designated as hedges** | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swaps | Notional | $ 13,926 | $ | $ (225) | $ 13,701 |
| Inflation indexed swaps | Notional | 561 | 3 | (2) | 562 |
| Foreign currency swaps | Notional | 35 | | | 35 |
| Forward bond purchase commitments | Notional | 237 | | (39) | 198 |
| Total cash flow hedges | | 14,759 | 3 | (266) | 14,496 |
| Fair value hedges: | | | | | |
| Interest rate swaps | Notional | 6 | | (1) | 5 |
| Total fair value hedges | | 6 | | (1) | 5 |
| Total derivatives designated as hedges | | 14,765 | 3 | (267) | 14,501 |
| **Derivatives not designated as hedges** | | | | | |
| Interest rate swaps | Notional | 4,822 | | | 4,822 |
| Interest rate swaps related to securitization entities | Notional | 91 | | (3) | 88 |
| Credit default swaps | Notional | 639 | | | 639 |
| Credit default swaps related to securitization entities | Notional | 312 | | | 312 |
| Equity index options | Notional | 777 | 140 | (123) | 794 |
| Financial futures | Notional | 1,260 | 1,332 | (1,286) | 1,306 |
| Equity return swaps | Notional | 110 | 112 | (110) | 112 |

| | | | | | |
|---|---|---|---|---|---|
| Other foreign currency contracts | Notional | 487 | 58 | (17) | 528 |
| Total derivatives not designated as hedges | | 8,498 | 1,642 | (1,539) | 8,601 |
| Total derivatives | | $ 23,263 | $ 1,645 | $ (1,806) | $ 23,102 |

| **(Number of policies)** | **Measurement** | **December 31, 2013** | **Additions** | **Maturities/ terminations** | **March 31, 2014** |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| GMWB embedded derivatives | Policies | 42,045 | | (729) | 41,316 |
| Fixed index annuity embedded derivatives | Policies | 7,705 | 1,954 | (51) | 9,608 |

27

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Cash Flow Hedges*

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended March 31, 2014:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income from OCI | Classification of gain (loss) reclassified into net income | Gain (loss) recognized in net income [1] | Classification of gain (loss) recognized in net income |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 357 | $ 15 | Net investment income | $ 4 | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (20) | | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | (3) | (1) | Net investment income | | Net investment gains (losses) |
| Forward bond purchase commitments | 18 | | Net investment income | | Net investment gains (losses) |
| Total | $ 352 | $ 14 | | $ 4 | |

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended March 31, 2013:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net income from OCI | Classification of gain (loss) reclassified into net income | Gain (loss) recognized in net income [1] | Classification of gain (loss) recognized in net income |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ (153) | $ 9 | Net investment income | $ (3) | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | | 1 | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | 9 | 3 | Net investment income | | Net investment gains (losses) |
| Foreign currency swaps | 1 | | Interest expense | | Net investment gains (losses) |
| Forward bond purchase commitments | (14) | | Net investment income | | Net investment gains (losses) |
| Total | $ (157) | $ 13 | | $ (3) | |

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

28

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | Three months ended March 31, | |
|---|---|---|
| **(Amounts in millions)** | **2014** | **2013** |
| Derivatives qualifying as effective accounting hedges as of January 1 | $ 1,319 | $ 1,909 |
| Current period increases (decreases) in fair value, net of deferred taxes of $(124) and $55 | 228 | (102) |
| Reclassification to net (income) loss, net of deferred taxes of $5 and $5 | (9) | (8) |
| Derivatives qualifying as effective accounting hedges as of March 31 | $ 1,538 | $ 1,799 |

The total of derivatives designated as cash flow hedges of $1,538 million, net of taxes, recorded in stockholders equity as of March 31, 2014 is expected to be reclassified to net income in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $43 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2047. No amounts were reclassified to net income during the three months ended March 31, 2014 in connection with forecasted transactions that were no longer considered probable of occurring.

*Fair Value Hedges*

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

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended March 31, 2014. The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended March 31, 2013:

| | Derivative instrument | | | | Hedged item | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | Gain (loss) recognized in net income | Classification of gain (losses) recognized in net income | Other impacts to net income | Classification of other impacts to net income | Gain (loss) recognized in net income | Classification of gain (losses) recognized in net income |
| Interest rate swaps hedging liabilities | $ (8) | Net investment gains (losses) | $ 8 | Interest credited | $ 8 | Net investment gains (losses) |
| Foreign currency swaps | (31) | Net investment gains (losses) | | Interest credited | 31 | Net investment gains (losses) |
| Total | $ (39) | | $ 8 | | $ 39 | |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The difference between the gain (loss) recognized for the derivative instrument and the hedged item presented above represents the net ineffectiveness of the fair value hedging relationships. The other impacts presented above represent the net income effects of the derivative instruments that are presented in the same location as the income (loss) activity from the hedged item. There were no amounts excluded from the measurement of effectiveness.

*Derivatives Not Designated As Hedges*

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

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

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

| | Three months ended March 31, | | Classification of gain (loss) recognized |
|---|---|---|---|
| **(Amounts in millions)** | **2014** | **2013** | **in net income** |
| Interest rate swaps | $ (3) | $ 1 | Net investment gains (losses) |
| Interest rate swaps related to securitization entities | (3) | 2 | Net investment gains (losses) |
| Credit default swaps | | 4 | Net investment gains (losses) |

| | | | |
|---|---|---|---|
| Credit default swaps related to securitization entities | 7 | 8 | Net investment gains (losses) |
| Equity index options | (7) | (16) | Net investment gains (losses) |
| Financial futures | 27 | (97) | Net investment gains (losses) |
| Equity return swaps | (1) | (10) | Net investment gains (losses) |
| Other foreign currency contracts | (9) | | Net investment gains (losses) |
| GMWB embedded derivatives | (31) | 82 | Net investment gains (losses) |
| Fixed index annuity embedded derivatives | (1) | (3) | Net investment gains (losses) |
| Total derivatives not designated as hedges | $ (21) | $ (29) | |

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Derivative Counterparty Credit Risk*

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

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

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Gross amounts not offset in the balance sheet | | | |
| **(Amounts in millions)** | **Gross amounts recognized** | **Gross amounts offset in the balance sheet** | **Net amounts presented in the balance sheet** | **Financial instruments [3]** | **Collateral pledged/ received** | **Over collateralization** | **Net amount** |
| Derivative assets [1] | $ 574 | $ | $ 574 | $ (210) | $ (355) | $ 20 | $ 29 |
| Derivative liabilities [2] | 410 | | 410 | (210) | (196) | 10 | 14 |
| Net derivatives | $ 164 | $ | $ 164 | $ | $ (159) | $ 10 | $ 15 |

(1) Included $44 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives.

(2) Included $25 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities.

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

**December 31, 2013**

**Gross amounts not offset**

| (Amounts in millions) | Gross amounts recognized | Gross amounts offset in the balance sheet | Net amounts presented in the balance sheet | Financial instruments [3] | Collateral pledged/ received | Over collateralization | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | in the balance sheet | | | |
| Derivative assets [1] | $ 496 | $ | $ 496 | $ (286) | $ (199) | $ 16 | $ 27 |
| Derivative liabilities [2] | 662 | | 662 | (286) | (394) | 23 | 5 |
| Net derivatives | $ (166) | $ | $ (166) | $ | $ 195 | $ (7) | $ 22 |

(1) Included $25 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives.

(2) Included $7 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities.

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

Except for derivatives related to securitization entities, almost all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

agreement. If the downgrade provisions had been triggered as of March 31, 2014 and December 31, 2013, we could have been allowed to claim or required to disburse up to the net amounts shown in the last column of the charts above. The charts above exclude embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

*Credit Derivatives*

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

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

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

| | March 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Notional value** | **Assets** | **Liabilities** | **Notional value** | **Assets** | **Liabilities** |
| Investment grade | | | | | | |
| Matures in less than one year | $ | $ | $ | $ | $ | $ |
| Matures after one year through five years | 39 | 1 | | 39 | 1 | |
| Total credit default swaps on single name reference entities | $ 39 | $ 1 | $ | $ 39 | $ 1 | $ |

32

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | March 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Notional value** | **Assets** | **Liabilities** | **Notional value** | **Assets** | **Liabilities** |
| Original index tranche attachment/detachment point and maturity: | | | | | | |
| 7% 15% matures after one year through five years [1] | $ 100 | $ 2 | $ | $ 100 | $ 3 | $ |
| 9% 12% matures after one year through five years [2] | 250 | 4 | | 250 | 5 | |
| 10% 15% matures in less than one year [3] | 250 | 2 | | 250 | 2 | |
| Total credit default swap index tranches | 600 | 8 | | 600 | 10 | |
| Customized credit default swap index tranches related to securitization entities: | | | | | | |
| Portion backing third-party borrowings maturing 2017 [4] | 12 | | | 12 | | 1 |
| Portion backing our interest maturing 2017 [5] | 300 | | 25 | 300 | | 31 |
| Total customized credit default swap index tranches related to securitization entities | 312 | | 25 | 312 | | 32 |
| Total credit default swaps on index tranches | $ 912 | $ 8 | $ 25 | $ 912 | $ 10 | $ 32 |

(1) The current attachment/detachment as of March 31, 2014 and December 31, 2013 was 7% 15%.
(2) The current attachment/detachment as of March 31, 2014 and December 31, 2013 was 9% 12%.
(3) The current attachment/detachment as of March 31, 2014 and December 31, 2013 was 10% 15%.
(4) Original notional value was $39 million.
(5) Original notional value was $300 million.

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

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

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

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

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

*Other invested assets.* Primarily represents short-term investments and limited partnerships accounted for under the cost method. The fair value of short-term investments typically does not include significant unobservable inputs and approximate our amortized cost basis. As a result, short-term investments are classified as Level 2. Limited partnerships are valued based on comparable market transactions, discounted future cash flows, quoted market prices and/or estimates using the most recent data available for the underlying instrument. Cost method limited partnerships typically include significant unobservable inputs as a result of being relatively illiquid with limited market activity for similar instruments and are classified as Level 3.

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

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

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

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The following represents our estimated fair value of financial assets and liabilities that are not required to be carried at fair value as of the dates indicated:

| | | | March 31, 2014 | | | |
|---|---|---|---|---|---|---|
| | | | | | Fair value | |
| **(Amounts in millions)** | **Notional amount** | **Carrying amount** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | | | |
| Commercial mortgage loans | $ (1) | $ 5,894 | $ 6,261 | $ | $ | $ 6,261 |
| Restricted commercial mortgage loans | (1) | 227 | 255 | | | 255 |
| Other invested assets | (1) | 216 | 226 | | 133 | 93 |
| Liabilities: | | | | | | |
| Long-term borrowings | (1) | 5,150 | 5,708 | | 5,574 | 134 |
| Non-recourse funding obligations | (1) | 2,030 | 1,454 | | | 1,454 |
| Borrowings related to securitization entities | (1) | 160 | 175 | | 175 | |
| Investment contracts | (1) | 17,585 | 18,087 | | 85 | 18,002 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | 65 | | | | | |
| Ordinary course of business lending commitments | 95 | | | | | |

| | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|
| | | | | | Fair value | |
| **(Amounts in millions)** | **Notional amount** | **Carrying amount** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | | | |
| Commercial mortgage loans | $ (1) | $ 5,899 | $ 6,137 | $ | $ | $ 6,137 |
| Restricted commercial mortgage loans | (1) | 233 | 258 | | | 258 |
| Other invested assets | (1) | 307 | 311 | | 221 | 90 |
| Liabilities: | | | | | | |
| Long-term borrowings | (1) | 5,161 | 5,590 | | 5,460 | 130 |
| Non-recourse funding obligations | (1) | 2,038 | 1,459 | | | 1,459 |
| Borrowings related to securitization entities | (1) | 167 | 182 | | 182 | |
| Investment contracts | (1) | 17,330 | 17,827 | | 86 | 17,741 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | 65 | | | | | |

138

| | |
|---|---|
| Ordinary course of business lending commitments | |

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

*Recurring Fair Value Measurements*

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

*Fixed maturity, equity and trading securities*

The valuations of fixed maturity, equity and trading securities are determined using a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. For all exchange-traded equity securities, the valuations are classified as Level 1.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We utilize certain third-party data providers when determining fair value. We consider information obtained from third-party pricing services ( pricing services ) as well as third-party broker provided prices, or broker quotes, in our determination of fair value. Additionally, we utilize internal models to determine the valuation of securities using an income approach where the inputs are based on third-party provided market inputs. While we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information. We also use various methods to obtain an understanding of the valuation methodologies and procedures used by third-party data providers to ensure sufficient understanding to evaluate the valuation data received, including an understanding of the assumptions and inputs utilized to determine the appropriate fair value. For pricing services, we analyze the prices provided by our primary pricing services to other readily available pricing services and perform a detailed review of the assumptions and inputs from each pricing service to determine the appropriate fair value when pricing differences exceed certain thresholds. We also evaluate changes in fair value that are greater than 10% each month to further aid in our review of the accuracy of fair value measurements and our understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed.

In general, we first obtain valuations from pricing services. If a price is not supplied by a pricing service, we will typically seek a broker quote for public or private fixed maturity securities. In certain instances, we utilize price caps for broker quoted securities where the estimated market yield results in a valuation that may exceed the amount that we believe would be received in a market transaction. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for identical securities are not readily observable and these securities are not typically valued by pricing services. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quotes valuation is available, we determine fair value using internal models.

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service s assumptions to determine if we agree with the service s derived price. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

For private fixed maturity securities, we utilize an internal model to determine fair value and utilize public bond spreads by sector, rating and maturity to develop the market rate that would be utilized for a similar public bond. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. In certain instances, we utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

For broker quotes, we consider the valuation methodology utilized by the third party, but the valuation typically includes significant unobservable inputs. Accordingly, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

*Restricted other invested assets related to securitization entities*

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

*Securities lending and derivative counterparty collateral*

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

*Contingent consideration*

We have certain contingent purchase price payments and receivables related to acquisitions and sales that are recorded at fair value each period. Fair value is determined using an income approach whereby we project the expected performance of the business and compare our projections of the relevant performance metric to the thresholds established in the purchase or sale agreement to determine our expected payments or receipts. We then discount these expected amounts to calculate the fair value as of the valuation date. We evaluate the underlying projections used in determining fair value each period and update these underlying projections when there have been significant changes in our expectations of the future business performance. The inputs used to determine the discount rate and expected payments or receipts are primarily based on significant unobservable inputs and result in the fair value of the contingent consideration being classified as Level 3. An increase in the discount rate or a decrease in expected payments or receipts will result in a decrease in the fair value of contingent consideration.

*Separate account assets*

The fair value of separate account assets is based on the quoted prices of the underlying fund investments and, therefore, represents Level 1 pricing.

*Derivatives*

We consider counterparty collateral arrangements and rights of set-off when evaluating our net credit risk exposure to our derivative counterparties. Accordingly, we are permitted to include consideration of these arrangements when determining whether any incremental adjustment should be made for both the counterparty s

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

and our non-performance risk in measuring fair value for our derivative instruments. As a result of these counterparty arrangements, we determined that any adjustment for credit risk would not be material and we do not record any incremental adjustment for our non-performance risk or the non-performance risk of the derivative counterparty for our derivative assets or liabilities. We determine fair value for our derivatives using an income approach with internal models based on relevant market inputs for each derivative instrument. We also compare the fair value determined using our internal model to the valuations provided by our derivative counterparties with any significant differences or changes in valuation being evaluated further by our derivatives professionals that are familiar with the instrument and market inputs used in the valuation.

*Interest rate swaps.* The valuation of interest rate swaps is determined using an income approach. The primary input into the valuation represents the forward interest rate swap curve, which is generally considered an observable input, and results in the derivative being classified as Level 2. For certain interest rate swaps, the inputs into the valuation also include the total returns of certain bonds that would primarily be considered an observable input and result in the derivative being classified as Level 2. For certain other swaps, there are features that provide an option to the counterparty to terminate the swap at specified dates. The interest rate volatility input used to value these options would be considered a significant unobservable input and results in the fair value measurement of the derivative being classified as Level 3. These options to terminate the swap by the counterparty are based on forward interest rate swap curves and volatility. As interest rate volatility increases, our valuation of the derivative changes unfavorably.

*Interest rate swaps related to securitization entities.* The valuation of interest rate swaps related to securitization entities is determined using an income approach. The primary input into the valuation represents the forward interest rate swap curve, which is generally considered an observable input, and results in the derivative being classified as Level 2.

*Inflation indexed swaps.* The valuation of inflation indexed swaps is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, the current consumer price index and the forward consumer price index curve, which are generally considered observable inputs, and results in the derivative being classified as Level 2.

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

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

*Credit default swaps related to securitization entities.* Credit default swaps related to securitization entities represent customized index tranche credit default swaps and are valued using a similar methodology as described

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

above for index tranche credit default swaps. We determine fair value of these credit default swaps after considering both the valuation methodology described above as well as the valuation provided by the derivative counterparty. In addition to the valuation methodology and inputs described for index tranche credit default swaps, these customized credit default swaps contain a feature that permits the securitization entity to provide the par value of underlying assets in the securitization entity to settle any losses under the credit default swap. The valuation of this settlement feature is dependent upon the valuation of the underlying assets and the timing and amount of any expected loss on the credit default swap, which is considered a significant unobservable input. Accordingly, these customized index tranche credit default swaps related to securitization entities are classified as Level 3. As credit spreads widen for the underlying issuers comprising the customized index, the change in our valuation of these credit default swaps will be unfavorable.

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

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

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

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

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

*GMWB embedded derivatives*

We are required to bifurcate an embedded derivative for certain features associated with annuity products and related reinsurance agreements where we provide a GMWB to the policyholder and are required to record the

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of March 31, 2014 and December 31, 2013, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $53 million and $46 million, respectively.

To determine the appropriate discount rate to reflect the non-performance risk of the GMWB liabilities, we evaluate the non-performance risk in our liabilities based on a hypothetical exit market transaction as there is no exit market for these types of liabilities. A hypothetical exit market can be viewed as a hypothetical transfer of the liability to another similarly rated insurance company which would closely resemble a reinsurance transaction. Another hypothetical exit market transaction can be viewed as a hypothetical transaction from the perspective of the GMWB policyholder. In determining the appropriate discount rate to incorporate non-performance risk of the GMWB liabilities, we also considered the impacts of state guarantees embedded in the related insurance product as a form of inseparable third-party guarantee. We believe that a hypothetical exit market participant would use a similar discount rate as described above to value the liabilities.

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

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

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

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Fixed index annuity embedded derivatives*

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

*Borrowings related to securitization entities*

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

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | March 31, 2014 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5,214 | $ | $ 5,210 | $ 4 |
| Tax-exempt | 317 | | 317 | |
| Government non-U.S. | 2,153 | | 2,129 | 24 |
| U.S. corporate | 26,060 | | 23,692 | 2,368 |
| Corporate non-U.S. | 15,141 | | 13,343 | 1,798 |
| Residential mortgage-backed | 5,102 | | 5,009 | 93 |
| Commercial mortgage-backed | 2,881 | | 2,868 | 13 |
| Other asset-backed | 3,376 | | 2,223 | 1,153 |
| Total fixed maturity securities | 60,244 | | 54,791 | 5,453 |
| Equity securities | 349 | 263 | 8 | 78 |
| Other invested assets: | | | | |
| Trading securities | 247 | | 216 | 31 |
| Derivative assets: | | | | |
| Interest rate swaps | 498 | | 498 | |
| Foreign currency swaps | 3 | | 3 | |
| Credit default swaps | 9 | | 1 | 8 |
| Equity index options | 11 | | | 11 |
| Forward bond purchase commitments | 4 | | 4 | |
| Other foreign currency contracts | 5 | | 4 | 1 |
| Total derivative assets | 530 | | 510 | 20 |
| Securities lending collateral | 261 | | 261 | |
| Derivatives counterparty collateral | 61 | | 61 | |
| Total other invested assets | 1,099 | | 1,048 | 51 |

| | | | | |
|---|---|---|---|---|
| Restricted other invested assets related to securitization entities | 398 | | 180 | 218 |
| Reinsurance recoverable [1] | 2 | | | 2 |
| Separate account assets | 9,933 | 9,933 | | |
| Total assets | $ 72,025 | $ 10,196 | $ 56,027 | $ 5,802 |
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [2] | $ 138 | $ | $ | $ 138 |
| Fixed index annuity embedded derivatives | 180 | | | 180 |
| Total policyholder account balances | 318 | | | 318 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 309 | | 309 | |
| Interest rate swaps related to securitization entities | 19 | | 19 | |
| Inflation indexed swaps | 63 | | 63 | |
| Foreign currency swaps | 2 | | 2 | |
| Credit default swaps related to securitization entities | 25 | | | 25 |
| Other foreign currency contracts | 11 | | 9 | 2 |
| Total derivative liabilities | 429 | | 402 | 27 |
| Borrowings related to securitization entities | 79 | | | 79 |
| Total liabilities | $ 826 | $ | $ 402 | $ 424 |

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

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

42

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| | December 31, 2013 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 4,810 | $ | $ 4,805 | $ 5 |
| Tax-exempt | 295 | | 295 | |
| Government non-U.S. | 2,146 | | 2,123 | 23 |
| U.S. corporate | 25,035 | | 22,635 | 2,400 |
| Corporate non-U.S. | 15,071 | | 13,252 | 1,819 |
| Residential mortgage-backed | 5,225 | | 5,120 | 105 |
| Commercial mortgage-backed | 2,898 | | 2,892 | 6 |
| Other asset-backed | 3,149 | | 1,983 | 1,166 |
| Total fixed maturity securities | 58,629 | | 53,105 | 5,524 |
| Equity securities | 341 | 256 | 7 | 78 |
| Other invested assets: | | | | |
| Trading securities | 239 | | 205 | 34 |
| Derivative assets: | | | | |
| Interest rate swaps | 436 | | 436 | |
| Foreign currency swaps | 4 | | 4 | |
| Credit default swaps | 11 | | 1 | 10 |
| Equity index options | 12 | | | 12 |
| Other foreign currency contracts | 8 | | 5 | 3 |
| Total derivative assets | 471 | | 446 | 25 |
| Securities lending collateral | 187 | | 187 | |
| Derivatives counterparty collateral | 70 | | 70 | |
| Total other invested assets | 967 | | 908 | 59 |
| Restricted other invested assets related to securitization entities | 391 | | 180 | 211 |
| Reinsurance recoverable [1] | (1) | | | (1) |
| Separate account assets | 10,138 | 10,138 | | |
| Total assets | $ 70,465 | $ 10,394 | $ 54,200 | $ 5,871 |

| | | | | |
|---|---|---|---|---|
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [(2)] | $ 96 | $ | $ | $ 96 |
| Fixed index annuity embedded derivatives | 143 | | | 143 |
| Total policyholder account balances | 239 | | | 239 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 575 | | 575 | |
| Interest rate swaps related to securitization entities | 16 | | 16 | |
| Inflation indexed swaps | 60 | | 60 | |
| Foreign currency swaps | 2 | | 2 | |
| Credit default swaps related to securitization entities | 32 | | | 32 |
| Equity return swaps | 1 | | 1 | |
| Forward bond purchase commitments | 13 | | 13 | |
| Other foreign currency contracts | 4 | | 3 | 1 |
| Total derivative liabilities | 703 | | 670 | 33 |
| Borrowings related to securitization entities | 75 | | | 75 |
| Total liabilities | $ 1,017 | $ | $ 670 | $ 347 |

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

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

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

**Table of Contents**

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | | Total realized and unrealized gains (losses) | | | | | | | | | Total gains (losses) included in net income |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2014** | **Included in net income** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of March 31, 2014** | **attributable to assets still held** |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 4 | $ |
| Government non-U.S. | 23 | | | 2 | | | (1) | | | 24 | |
| U.S. corporate [(1)] | 2,400 | 5 | 29 | 90 | | | (42) | 14 | (128) | 2,368 | 5 |
| Corporate non-U.S.[(1)] | 1,819 | 1 | 9 | 36 | | | (35) | | (32) | 1,798 | 1 |
| Residential mortgage-backed | 105 | | 1 | | (23) | | (3) | 13 | | 93 | |
| Commercial mortgage-backed | 6 | | 2 | | | | (1) | 6 | | 13 | |
| Other asset-backed [(1)] | 1,166 | 1 | (4) | 16 | (5) | | (37) | 36 | (20) | 1,153 | 1 |
| Total fixed maturity securities | 5,524 | 7 | 37 | 144 | (28) | | (120) | 69 | (180) | 5,453 | 7 |
| Equity securities | 78 | | | | | | | | | 78 | |
| Other invested assets: | | | | | | | | | | | |
| Trading securities | 34 | | | | | | (3) | | | 31 | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 10 | | | | | | (2) | | | 8 | |
| Equity index options | 12 | (7) | | 6 | | | | | | 11 | (7) |
| | 3 | (2) | | | | | | | | 1 | (2) |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other foreign currency contracts | | | | | | | | | | | |
| Total derivative assets | 25 | (9) | | 6 | | | (2) | | | 20 | (9) |
| Total other invested assets | 59 | (9) | | 6 | | | (5) | | | 51 | (9) |
| Restricted other invested assets related to securitization entities | 211 | 7 | | | | | | | | 218 | 7 |
| Reinsurance recoverable [2] | (1) | 2 | | | | 1 | | | | 2 | 2 |
| Total Level 3 assets | $ 5,871 | $ 7 | $ 37 | $ 150 | $ (28) | $ 1 | $ (125) | $ 69 | $ (180) | $ 5,802 | $ 7 |

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

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

**Table of Contents**

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

| | | **Total realized and unrealized gains (losses)** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2013** | **Included in net income** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of March 31, 2013** | **Total gains (losses) included in net income attributable to assets still held** |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government- sponsored enterprises | $ 9 | $ | $ | $ | $ | $ | $ (4) | $ | $ | $ 5 | $ |
| Government non-U.S. | 9 | | | | | | (1) | | | 8 | |
| U.S. corporate [1] | 2,683 | 2 | 18 | 56 | (97) | | (51) | 62 | (29) | 2,644 | (1) |
| Corporate non-U.S. [1] | 1,983 | 1 | 9 | 53 | | | (23) | | (53) | 1,970 | 1 |
| Residential mortgage-backed | 157 | (1) | 1 | | | | (11) | | (16) | 130 | (1) |
| Commercial mortgage-backed | 35 | (2) | (2) | | | | (10) | 5 | | 26 | (2) |
| Other asset-backed | 864 | (1) | 11 | 65 | (44) | | (30) | 86 | | 951 | |
| Total fixed maturity securities | 5,740 | (1) | 37 | 174 | (141) | | (130) | 153 | (98) | 5,734 | (3) |
| Equity securities | 99 | | | | (7) | | | | | 92 | |
| Other invested assets: | | | | | | | | | | | |
| Trading securities | 76 | 3 | | | (11) | | (1) | | | 67 | 2 |
| Derivative assets: | | | | | | | | | | | |
| Interest rate swaps | 2 | | | | | | (1) | | | 1 | |
| Credit default swaps | 7 | 3 | | | | | (3) | | | 7 | 2 |
| Equity index options | 25 | (15) | | 7 | | | | | | 17 | (15) |