GENWORTH FINANCIAL INC
Form 10-Q
November 10, 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 September 30, 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	**80-0873306**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
6620 West Broad Street Richmond, Virginia	**23230**
(Address of Principal Executive Offices)	**(Zip Code)**

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of October 28, 2014, 496,659,914 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

		Page
PART I FINANCIAL INFORMATION		3
Item 1.	Financial Statements	3
Condensed Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and December 31, 2013		3
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013 (Unaudited)		4
Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013 (Unaudited)		5
Condensed Consolidated Statements of Changes in Stockholders Equity for the nine months ended September 30, 2014 and 2013 (Unaudited)		6
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (Unaudited)		7
Notes to Condensed Consolidated Financial Statements (Unaudited)		8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	83
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	178
Item 4.	Controls and Procedures	178
PART II OTHER INFORMATION		179
Item 1.	Legal Proceedings	179
Item 1A.	Risk Factors	180
Item 6.	Exhibits	189
Signatures		190

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)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 62,317	$ 58,629
Equity securities available-for-sale, at fair value	313	341
Commercial mortgage loans	6,077	5,899
Restricted commercial mortgage loans related to securitization entities	209	233
Policy loans	1,512	1,434
Other invested assets	2,281	1,686
Restricted other invested assets related to securitization entities, at fair value	404	391
Total investments	73,113	68,613
Cash and cash equivalents	3,477	4,214
Accrued investment income	719	678
Deferred acquisition costs	5,085	5,278
Intangible assets	300	399
Goodwill	316	867
Reinsurance recoverable	17,374	17,219
Other assets	710	639
Separate account assets	9,420	10,138
Total assets	$ 110,514	$ 108,045
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 34,697	$ 33,705
Policyholder account balances	25,827	25,528
Liability for policy and contract claims	7,987	7,204
Unearned premiums	4,085	4,107
Other liabilities ($42 and $50 other liabilities related to securitization entities)	3,605	4,096
Borrowings related to securitization entities ($83 and $75 at fair value)	225	242

Non-recourse funding obligations	2,010	2,038
Long-term borrowings	4,662	5,161
Deferred tax liability	875	206
Separate account liabilities	9,420	10,138
Total liabilities	93,393	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 September 30, 2014 and December 31, 2013, respectively; 497 million and 495 million shares outstanding as of September 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	11,991	12,127
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,047	914
Net unrealized gains (losses) on other-than-temporarily impaired securities	20	12
Net unrealized investment gains (losses)	2,067	926
Derivatives qualifying as hedges	1,753	1,319
Foreign currency translation and other adjustments	114	297
Total accumulated other comprehensive income (loss)	3,934	2,542
Retained earnings	1,939	2,423
Treasury stock, at cost (88 million shares as of September 30, 2014 and December 31, 2013)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,165	14,393
Noncontrolling interests	1,956	1,227
Total stockholders equity	17,121	15,620
Total liabilities and stockholders equity	$ 110,514	$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Premiums	$ 1,395	$ 1,291	$ 4,045	$ 3,838
Net investment income	805	801	2,423	2,436
Net investment gains (losses)	(27)	(23)	(10)	(63)
Insurance and investment product fees and other	231	248	683	780
Total revenues	2,404	2,317	7,141	6,991
Benefits and expenses:				
Benefits and other changes in policy reserves	1,986	1,169	4,436	3,639
Interest credited	185	184	552	552
Acquisition and operating expenses, net of deferrals	398	407	1,180	1,253
Amortization of deferred acquisition costs and intangibles	143	182	415	441
Goodwill impairment	550		550	
Interest expense	114	124	361	371
Total benefits and expenses	3,376	2,066	7,494	6,256
Income (loss) from continuing operations before income taxes	(972)	251	(353)	735
Provision (benefit) for income taxes	(185)	105	(13)	254
Income (loss) from continuing operations	(787)	146	(340)	481
Income (loss) from discontinued operations, net of taxes		2		(12)
Net income (loss)	(787)	148	(340)	469
Less: net income attributable to noncontrolling interests	57	40	144	117
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (844)	$ 108	$ (484)	$ 352
Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ (1.70)	$ 0.21	$ (0.98)	$ 0.74
Diluted	$ (1.70)	$ 0.21	$ (0.98)	$ 0.73

Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:								
Basic	$	(1.70)	$	0.22	$	(0.98)	$	0.71
Diluted	$	(1.70)	$	0.22	$	(0.98)	$	0.71
Weighted-average common shares outstanding:								
Basic		496.6		494.0		496.4		493.3
Diluted		496.6		499.3		496.4		497.9
Supplemental disclosures:								
Total other-than-temporary impairments	$	(13)	$	(3)	$	(16)	$	(17)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		7		(2)		7		(5)
Net other-than-temporary impairments		(6)		(5)		(9)		(22)
Other investments gains (losses)		(21)		(18)		(1)		(41)
Total net investment gains (losses)	$	(27)	$	(23)	$	(10)	$	(63)

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net income (loss)	$ (787)	$ 148	$ (340)	$ 469
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(68)	(191)	1,171	(1,624)
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	5	8	57
Derivatives qualifying as hedges	101	(139)	434	(467)
Foreign currency translation and other adjustments	(379)	144	(252)	(313)
Total other comprehensive income (loss)	(345)	(181)	1,361	(2,347)
Total comprehensive income (loss)	(1,132)	(33)	1,021	(1,878)
Less: comprehensive income (loss) attributable to noncontrolling interests	(61)	62	56	33
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,071)	$ (95)	$ 965	$ (1,911)

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
Initial sale of subsidiary shares to noncontrolling interests		(145)	(57)			(202)	713	511
Comprehensive income (loss):								
Net income (loss)				(484)		(484)	144	(340)
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,155			1,155	16	1,171
Net unrealized gains (losses) on other-than-temporarily impaired securities			8			8		8
Derivatives qualifying as hedges			434			434		434
Foreign currency translation and other adjustments			(148)			(148)	(104)	(252)
Total comprehensive income (loss)						965	56	1,021
Dividends to noncontrolling interests							(46)	(46)
Stock-based compensation expense and exercises and other		9				9	6	15
Balances as of September 30, 2014	$ 1	$ 11,991	$ 3,934	$ 1,939	$ (2,700)	$ 15,165	$ 1,956	$ 17,121
Balances as of December 31, 2012	$ 1	$ 12,127	$ 5,202	$ 1,863	$ (2,700)	$ 16,493	$ 1,288	$ 17,781
Repurchase of subsidiary shares							(43)	(43)

Comprehensive income (loss):								
Net income				352		352	117	469
Net unrealized gains (losses) on securities not other-than-temporarily impaired			(1,586)			(1,586)	(38)	(1,624)
Net unrealized gains (losses) on other-than-temporarily impaired securities			57			57		57
Derivatives qualifying as hedges			(467)			(467)		(467)
Foreign currency translation and other adjustments			(267)			(267)	(46)	(313)
Total comprehensive income (loss)						(1,911)	33	(1,878)
Dividends to noncontrolling interests							(39)	(39)
Stock-based compensation expense and exercises and other		22				22	2	24
Balances as of September 30, 2013	$ 1	$ 12,149	$ 2,939	$ 2,215	$ (2,700)	$ 14,604	$ 1,241	$ 15,845

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine months ended September 30,	
	2014	**2013**
Cash flows from operating activities:		
Net income (loss)	$ (340)	$ 469
Less loss from discontinued operations, net of taxes		12
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(87)	(64)
Net investment losses (gains)	10	63
Charges assessed to policyholders	(580)	(612)
Acquisition costs deferred	(356)	(332)
Amortization of deferred acquisition costs and intangibles	415	441
Goodwill impairment	550	
Deferred income taxes	(194)	(120)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	110	(15)
Stock-based compensation expense	21	27
Change in certain assets and liabilities:		
Accrued investment income and other assets	(172)	(66)
Insurance reserves	1,769	1,679
Current tax liabilities	(187)	242
Other liabilities and other policy-related balances	181	(699)
Cash from operating activities discontinued operations		68
Net cash from operating activities	1,140	1,093
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	3,775	4,046
Commercial mortgage loans	528	686
Restricted commercial mortgage loans related to securitization entities	24	51
Proceeds from sales of investments:		
Fixed maturity and equity securities	1,745	3,056
Purchases and originations of investments:		
Fixed maturity and equity securities	(7,464)	(7,872)
Commercial mortgage loans	(709)	(667)
Other invested assets, net	87	80
Policy loans, net	11	(7)

Proceeds from sale of a subsidiary, net of cash transferred		370
Cash from investing activities discontinued operations		(30)
Net cash from investing activities	(2,003)	(287)
Cash flows from financing activities:		
Deposits to universal life and investment contracts	2,201	1,979
Withdrawals from universal life and investment contracts	(1,950)	(2,613)
Redemption of non-recourse funding obligations	(28)	(20)
Proceeds from issuance of long-term debt	144	397
Repayment and repurchase of long-term debt	(621)	(365)
Repayment of borrowings related to securitization entities	(24)	(51)
Proceeds from sale of subsidiary shares to noncontrolling interests	517	
Repurchase of subsidiary shares		(43)
Dividends paid to noncontrolling interests	(46)	(39)
Other, net	(44)	(53)
Cash from financing activities discontinued operations		(3)
Net cash from financing activities	149	(811)
Effect of exchange rate changes on cash and cash equivalents	(23)	(94)
Net change in cash and cash equivalents	(737)	(99)
Cash and cash equivalents at beginning of period	4,214	3,653
Cash and cash equivalents at end of period	3,477	3,554
Less cash and cash equivalents of discontinued operations at end of period		
Cash and cash equivalents of continuing operations at end of period	$ 3,477	$ 3,554

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Holdings, Inc. (Genworth Holdings) (formerly known as Genworth Financial, Inc.) was incorporated in Delaware in 2003 in preparation for an initial public offering of Genworth 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 unaudited condensed consolidated financial statements 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 unaudited 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.

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 unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2013 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

a) 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.

b) Accounting Pronouncements Not Yet Adopted

In August 2014, the Financial Accounting Standards Board (the FASB) issued new accounting guidance related to measuring the financial assets and financial liabilities of a consolidated collateralized financing entity. The guidance is intended to address diversity in practice that has developed in the accounting for the measurement difference between the fair value of financial assets and the fair value of financial liabilities of a collateralized financing entity. The new guidance provides a measurement alternative whereby a reporting entity could measure the financial assets and financial liabilities of the collateralized financing entity in its consolidated financial statements using the more observable of the fair values. This guidance is effective for us on January 1, 2016, with early adoption permitted as of the beginning of an annual reporting period. While we have consolidated variable interest entities that are subject to

this guidance, our current practice uses an approach that was acceptable under the old guidance and is consistent with the new measurement alternatives. As a result, we plan to early adopt this new guidance during the first quarter of 2015 and do not expect any impact on our consolidated financial statements.

In June 2014, the FASB issued new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financings, and added disclosure requirements for all repurchase

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

agreements, securities lending transactions and repurchase-to-maturity transactions. The new guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing such that they will be consistent with secured borrowing accounting. In addition, the guidance requires new disclosures for all repurchase agreements and securities lending transactions. We do not have repurchase-to-maturity transactions, but have repurchase agreements and securities lending transactions that will be subject to additional disclosures. These new requirements will be effective for us on January 1, 2015 and early adoption is not permitted. This new guidance will only impact our disclosures.

In May 2014, the FASB issued new accounting guidance related to revenue from contracts with customers. The key principle of the new guidance is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. The guidance also includes disclosure requirements that provide information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for us on January 1, 2017 and early adoption is not permitted. Although insurance contracts are specifically scoped out of this new guidance, we have minor services that may be subject to the new revenue recognition guidance and are still in the process of evaluating the impact, if any, the guidance may have on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Weighted-average shares used in basic earnings (loss) per common share calculations	496.6	494.0	496.4	493.3
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights		5.3		4.6
Weighted-average shares used in diluted earnings (loss) per common share calculations [1]	496.6	499.3	496.4	497.9
Income (loss) from continuing operations:				
Income (loss) from continuing operations	$ (787)	$ 146	$ (340)	$ 481
Less: income from continuing operations attributable to noncontrolling interests	57	40	144	117
Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders	$ (844)	$ 106	$ (484)	$ 364
Basic per common share	$ (1.70)	$ 0.21	$ (0.98)	$ 0.74
Diluted per common share	$ (1.70)	$ 0.21	$ (0.98)	$ 0.73
Income (loss) from discontinued operations:				
Income (loss) from discontinued operations, net of taxes	$	$ 2	$	$ (12)
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests				
Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc. s common stockholders	$	$ 2	$	$ (12)
Basic per common share	$	$	$	$ (0.02)

Diluted per common share	$		$		$		$	(0.02)
Net income (loss):								
Income (loss) from continuing operations	$	(787)	$	146	$	(340)	$	481
Income (loss) from discontinued operations, net of taxes				2				(12)
Net income (loss)		(787)		148		(340)		469
Less: net income attributable to noncontrolling interests		57		40		144		117
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$	(844)	$	108	$	(484)	$	352
Basic per common share	$	(1.70)	$	0.22	$	(0.98)	$	0.71
Diluted per common share	$	(1.70)	$	0.22	$	(0.98)	$	0.71

(1) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our loss from continuing operations available to Genworth Financial, Inc. s common stockholders and net loss available to Genworth Financial, Inc. s common stockholders for the three and nine months ended September 30, 2014, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the three and nine months ended September 30, 2014, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 5.4 million and 6.4 million, respectively, would have been antidilutive to the calculation. If we had not incurred a loss from continuing operations available to Genworth Financial, Inc. s common stockholders and net loss available to Genworth Financial, Inc. s common stockholders for the three and nine months ended September 30, 2014, dilutive potential weighted-average common shares outstanding would have been 502.0 million and 502.8 million, respectively.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments

(a) Net Investment Income

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

(Amounts in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Fixed maturity securities taxable	$ 651	$ 651	$ 1,965	$ 1,979
Fixed maturity securities non-taxable	3	3	9	7
Commercial mortgage loans	82	81	246	244
Restricted commercial mortgage loans related to securitization entities	3	8	11	22
Equity securities	3	3	11	13
Other invested assets	46	41	135	128
Restricted other invested assets related to securitization entities	1		3	
Policy loans	32	33	95	97
Cash, cash equivalents and short-term investments	7	4	19	16
Gross investment income before expenses and fees	828	824	2,494	2,506
Expenses and fees	(23)	(23)	(71)	(70)
Net investment income	$ 805	$ 801	$ 2,423	$ 2,436

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Available-for-sale securities:				
Realized gains	$ 17	$ 26	$ 62	$ 144
Realized losses	(5)	(38)	(42)	(151)

Net realized gains (losses) on available-for-sale securities	12	(12)	20	(7)
Impairments:				
Total other-than-temporary impairments	(13)	(3)	(16)	(17)
Portion of other-than-temporary impairments included in other comprehensive income (loss)	7	(2)	7	(5)
Net other-than-temporary impairments	(6)	(5)	(9)	(22)
Trading securities	4	(6)	24	(15)
Commercial mortgage loans	3	1	9	5
Net gains (losses) related to securitization entities	(1)	21	14	43
Derivative instruments [1]	(38)	(19)	(66)	(63)
Contingent consideration adjustment	(1)		(1)	
Other		(3)	(1)	(4)
Net investment gains (losses)	$ (27)	$ (23)	$ (10)	$ (63)

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

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 September 30, 2014 and 2013 was $225 million and $407 million, respectively, which was approximately 98% and 93%, respectively, of book value. The aggregate fair value of securities sold at a loss during the nine months ended September 30, 2014 and 2013 was $732 million and $1,293 million, respectively, which was approximately 95% and 90%, respectively, of book value.

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

(Amounts in millions)	As of or for the three months ended September 30, 2014	2013	As of or for the nine months ended September 30, 2014	2013
Beginning balance	$ 95	$ 179	$ 101	$ 387
Additions:				
Other-than-temporary impairments not previously recognized	1	1	2	3
Increases related to other-than-temporary impairments previously recognized		2		9
Reductions:				
Securities sold, paid down or disposed	(7)	(76)	(14)	(293)
Ending balance	$ 89	$ 106	$ 89	$ 106

(c) Unrealized Investment Gains and Losses

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

(Amounts in millions)	September 30, 2014	December 31, 2013

Net unrealized gains (losses) on investment securities:				
Fixed maturity securities	$	4,721	$	2,346
Equity securities		34		23
Other invested assets		(2)		(4)
Subtotal		4,753		2,365
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves		(1,442)		(869)
Income taxes, net		(1,153)		(517)
Net unrealized investment gains (losses)		2,158		979
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		91		53
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	2,067	$	926

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	As of or for the three months ended September 30,	
(Amounts in millions)	**2014**	**2013**
Beginning balance	$ 2,128	$ 1,294
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(225)	(411)
Adjustment to deferred acquisition costs	35	23
Adjustment to present value of future profits	36	9
Adjustment to sales inducements	9	3
Adjustment to benefit reserves	49	68
Provision for income taxes	33	111
Change in unrealized gains (losses) on investment securities	(63)	(197)
Reclassification adjustments to net investment (gains) losses, net of taxes of $2 and $(6)	(4)	11
Change in net unrealized investment gains (losses)	(67)	(186)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(6)	(1)
Ending balance	$ 2,067	$ 1,109

	As of or for the nine months ended September 30,	
(Amounts in millions)	**2014**	**2013**
Beginning balance	$ 926	$ 2,638
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	2,399	(3,348)
Adjustment to deferred acquisition costs	(160)	241
Adjustment to present value of future profits	(55)	80
Adjustment to sales inducements	(19)	41
Adjustment to benefit reserves	(339)	555

Provision for income taxes	(640)	845
Change in unrealized gains (losses) on investment securities	1,186	(1,586)
Reclassification adjustments to net investment (gains) losses, net of taxes of $4 and $(10)	(7)	19
Change in net unrealized investment gains (losses)	1,179	(1,567)
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	38	(38)
Ending balance	$ 2,067	$ 1,109

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of September 30, 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	$ 4,991	$ 710	$	$ (59)	$	$ 5,642
Tax-exempt	346	25		(15)		356
Government non-U.S.	1,902	136		(3)		2,035
U.S. corporate	24,398	2,653	19	(114)		26,956
Corporate non-U.S.	14,691	995		(48)	(1)	15,637
Residential mortgage-backed	4,864	308	14	(30)	(1)	5,155
Commercial mortgage-backed	2,623	117	4	(16)		2,728
Other asset-backed	3,825	29	1	(47)		3,808
Total fixed maturity securities	57,640	4,973	38	(332)	(2)	62,317
Equity securities	281	38		(6)		313
Total available-for-sale securities	$ 57,921	$ 5,011	$ 38	$ (338)	$ (2)	$ 62,630

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 September 30, 2014:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses (1)	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities	Fair value	Gross unrealized losses (2)	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 416	$ (5)	17	$ 746	$ (54)	27	$ 1,162	$ (59)	44
Tax-exempt				110	(15)	10	110	(15)	10
Government non-U.S.	133	(1)	25	100	(2)	8	233	(3)	33
U.S. corporate	2,032	(27)	295	1,565	(87)	251	3,597	(114)	546
Corporate non-U.S.	1,331	(17)	213	615	(32)	80	1,946	(49)	293
Residential mortgage-backed	369	(3)	45	318	(28)	106	687	(31)	151
Commercial mortgage-backed	181	(1)	23	454	(15)	59	635	(16)	82
Other asset-backed	1,153	(6)	162	440	(41)	46	1,593	(47)	208
Subtotal, fixed maturity securities	5,615	(60)	780	4,348	(274)	587	9,963	(334)	1,367
Equity securities	23	(1)	48	50	(5)	6	73	(6)	54
Total for securities in an unrealized loss position	$ 5,638	$ (61)	828	$ 4,398	$ (279)	593	$ 10,036	$ (340)	1,421
% Below cost fixed maturity securities:									
<20% Below cost	$ 5,615	$ (60)	780	$ 4,247	$ (231)	564	$ 9,862	$ (291)	1,344
20%-50% Below cost				101	(42)	15	101	(42)	15
>50% Below cost					(1)	8		(1)	8
Total fixed maturity securities	5,615	(60)	780	4,348	(274)	587	9,963	(334)	1,367
% Below cost equity securities:									

<20% Below cost	23	(1)	48	50	(5)	6	73	(6)	54
Total equity securities	23	(1)	48	50	(5)	6	73	(6)	54
Total for securities in an unrealized loss position	$ 5,638	$ (61)	828	$ 4,398	$ (279)	593	$ 10,036	$ (340)	1,421
Investment grade	$ 5,109	$ (48)	708	$ 4,089	$ (252)	513	$ 9,198	$ (300)	1,221
Below investment grade [(3)]	529	(13)	120	309	(27)	80	838	(40)	200
Total for securities in an unrealized loss position	$ 5,638	$ (61)	828	$ 4,398	$ (279)	593	$ 10,036	$ (340)	1,421

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

(2) Amounts included $2 million of unrealized losses on other-than-temporarily impaired securities.

(3) Amounts that have been in a continuous unrealized loss position for 12 months or more included $1 million of unrealized losses on other-than-temporarily impaired securities.

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 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 1% as of September 30, 2014.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Of the $231 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 92% of the unrealized losses were related to investment grade securities as of September 30, 2014. These unrealized losses were attributable to the lower credit ratings for these securities since acquisition, primarily associated with corporate securities in the utilities and energy and finance and insurance sectors, 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 5% as of September 30, 2014. See below for additional discussion related to fixed maturity securities that have been in a continuous unrealized loss position for 12 months or more with a fair value that was more than 20% below cost.

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous unrealized loss position for 12 months or more by asset class as of September 30, 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:								
Tax-exempt	$ 9	$ (3)	1%	1	$	$	%	
Corporate non-U.S.	1	(1)		1				
Structured securities:								
Residential mortgage-backed	10	(5)	1	4				
Other asset-backed	72	(26)	8	4				
Total structured securities	82	(31)	9	8				
Total	$ 92	$ (35)	10%	10	$	$	%	

	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:								
Structured securities:								
Residential mortgage-backed	$ 1	$ (1)	%	4	$	$ (1)	%	8
Other asset-backed	8	(6)	2	1				
Total structured securities	9	(7)	2	5		(1)		8
Total	$ 9	$ (7)	2%	5	$	$ (1)	%	8

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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Structured Securities

Of the $39 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, $1 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, 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 September 30, 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.

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 unrealized loss position for 12 months or more included $7 million of unrealized losses on other-than-temporarily impaired securities.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of September 30, 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	$ 2,618	$ 2,640
Due after one year through five years	10,458	11,009
Due after five years through ten years	12,474	13,113
Due after ten years	20,778	23,864
Subtotal	46,328	50,626
Residential mortgage-backed	4,864	5,155
Commercial mortgage-backed	2,623	2,728
Other asset-backed	3,825	3,808
Total	$ 57,640	$ 62,317

As of September 30, 2014, $6,618 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of September 30, 2014, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 24%, 19% and 12%, 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 September 30, 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.

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:

	September 30, 2014		December 31, 2013	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 2,147	35%	$ 2,073	35%
Office	1,642	27	1,558	26
Industrial	1,606	26	1,581	27
Apartments	499	8	491	8
Mixed use/other	207	4	229	4
Subtotal	6,101	100%	5,932	100%
Allowance for losses	(24)		(33)	
Total	$ 6,077		$ 5,899	

	September 30, 2014		December 31, 2013	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,651	27%	$ 1,535	26%
Pacific	1,646	27	1,590	27
Middle Atlantic	835	14	828	14
Mountain	531	9	478	8
East North Central	392	6	404	7
West North Central	374	6	377	6
West South Central	267	5	241	4
New England	265	4	337	6
East South Central	140	2	142	2
Subtotal	6,101	100%	5,932	100%

Allowance for losses	(24)	(33)
Total	$ 6,077	$ 5,899

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:

	September 30, 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	$	$	$ 4	$ 4	$ 2,143	$ 2,147
Office			6	6	1,636	1,642
Industrial			18	18	1,588	1,606
Apartments					499	499
Mixed use/other					207	207
Total recorded investment	$	$	$ 28	$ 28	$ 6,073	$ 6,101
% of total commercial mortgage loans	%	%	%	%	100%	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
Office			6	6	1,552	1,558
Industrial	2	2	16	20	1,561	1,581
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 September 30, 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 September 30, 2014 and December 31, 2013.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of September 30, 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 nine months ended September 30, 2014 and the year ended December 31, 2013, we modified or extended 19 and 33 commercial mortgage loans, respectively, with a total carrying value of $220 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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	**Three months ended September 30, 2014**	**2013**	**Nine months ended September 30, 2014**	**2013**
Allowance for credit losses:				
Beginning balance	$ 27	$ 38	$ 33	$ 42
Charge-offs		(1)	(1)	(3)
Recoveries				
Provision	(3)	(1)	(8)	(3)
Ending balance	$ 24	$ 36	$ 24	$ 36
Ending allowance for individually impaired loans	$	$	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 24	$ 36	$ 24	$ 36
Recorded investment:				
Ending balance	$ 6,101	$ 5,893	$ 6,101	$ 5,893
Ending balance of individually impaired loans	$ 17	$ 2	$ 17	$ 2
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,084	$ 5,891	$ 6,084	$ 5,891

As of September 30, 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 September 30, 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:

	September 30, 2014					
(Amounts in millions)	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% [1]	Total
Property type:						
Retail	$ 669	$ 382	$ 996	$ 88	$ 12	$ 2,147
Office	400	266	787	131	58	1,642
Industrial	447	333	709	86	31	1,606
Apartments	216	77	183	8	15	499
Mixed use/other	51	43	107	6		207
Total recorded investment	$ 1,783	$ 1,101	$ 2,782	$ 319	$ 116	$ 6,101
% of total	29%	18%	46%	5%	2%	100%
Weighted-average debt service coverage ratio	2.08	1.74	1.58	1.00	0.73	1.71

[1] Included $17 million of impaired loans, $6 million of loans past due and not individually impaired and $93 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 130%.

	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
Office	397	191	716	191	63	1,558
Industrial	430	237	748	146	20	1,581
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 million of loans past due and not individually impaired 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%.

Table of Contents

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:

	September 30, 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	$ 96	$ 300	$ 469	$ 897	$ 385	$ 2,147
Office	116	173	212	754	380	1,635
Industrial	170	102	271	783	280	1,606
Apartments	2	30	114	209	144	499
Mixed use/other	6	2	34	119	46	207
Total recorded investment	$ 390	$ 607	$ 1,100	$ 2,762	$ 1,235	$ 6,094
% of total	6%	10%	18%	46%	20%	100%
Weighted-average loan-to-value	79%	65%	63%	60%	44%	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
Office	131	181	225	637	376	1,550
Industrial	195	100	270	721	295	1,581
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 September 30, 2014 and December 31, 2013, we had floating rate commercial mortgage loans of $7 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 and the changes in fair value for these securities 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.

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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Derivative assets			**Derivative liabilities**		
		Fair value			**Fair value**	
(Amounts in millions)	**Balance sheet classification**	**September 30, 2014**	**December 31, 2013**	**Balance sheet classification**	**September 30, 2014**	**December 31, 2013**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 253	$ 121	Other liabilities	$ 33	$ 569
Inflation indexed swaps	Other invested assets			Other liabilities	70	60
Foreign currency swaps	Other invested assets	4	4	Other liabilities		2
Forward bond purchase commitments	Other invested assets	5		Other liabilities		13
Total cash flow hedges		262	125		103	644
Fair value hedges:						
Interest rate swaps	Other invested assets		1	Other liabilities		
Total fair value hedges			1			
Total derivatives designated as hedges		262	126		103	644
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	373	314	Other liabilities	96	6
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	22	16
Foreign currency swaps	Other invested assets			Other liabilities	3	
Credit default swaps	Other invested assets	5	11	Other liabilities		
Credit default swaps related to securitization	Restricted other invested assets			Other liabilities	19	32

entities						
Equity index options	Other invested assets	11	12	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets	5		Other liabilities		1
Other foreign currency contracts	Other invested assets	8	8	Other liabilities	8	4
GMWB embedded derivatives	Reinsurance recoverable [1]	8	(1)	Policyholder account balances [2]	218	96
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances [3]	246	143
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances [4]	3	
Total derivatives not designated as hedges		410	344		615	298
Total derivatives		$ 672	$ 470		$ 718	$ 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.

[4] Represents the embedded derivatives associated with our indexed universal life liabilities.

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, fixed index annuity embedded derivatives and indexed universal life embedded derivatives, the change between periods is best illustrated by the number of policies. The following tables represent activity associated with derivative instruments as of the dates indicated:

(Notional in millions)	Measurement	December 31, 2013	Additions	Maturities/ terminations	September 30, 2014
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 13,926	$	$ (597)	$ 13,329
Inflation indexed swaps	Notional	561	15	(3)	573
Foreign currency swaps	Notional	35			35
Forward bond purchase commitments	Notional	237		(189)	48
Total cash flow hedges		14,759	15	(789)	13,985
Fair value hedges:					
Interest rate swaps	Notional	6		(1)	5
Total fair value hedges		6		(1)	5
Total derivatives designated as hedges		14,765	15	(790)	13,990
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,822	253	(6)	5,069
Interest rate swaps related to securitization entities	Notional	91		(10)	81
Credit default swaps	Notional	639	5		644
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	777	439	(394)	822
Financial futures	Notional	1,260	4,299	(4,226)	1,333
Equity return swaps	Notional	110	223	(223)	110

Foreign currency swaps	Notional		104		104
Other foreign currency contracts	Notional	487	677	(786)	378
Total derivatives not designated as hedges		8,498	6,000	(5,645)	8,853
Total derivatives		$ 23,263	$ 6,015	$ (6,435)	$ 22,843

(Number of policies)	**Measurement**	**December 31, 2013**	**Additions**	**Maturities/ terminations**	**September 30, 2014**
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	42,045		(1,541)	40,504
Fixed index annuity embedded derivatives	Policies	7,705	3,767	(110)	11,362
Indexed universal life embedded derivatives	Policies	29	228		257

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 September 30, 2014:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 151	$ 17	Net investment income	$ 2	Net investment gains (losses)
Interest rate swaps hedging liabilities	(8)		Interest expense		Net investment gains (losses)
Inflation indexed swaps	20	(3)	Net investment income		Net investment gains (losses)
Foreign currency swaps	2		Net investment income		Net investment gains (losses)
Forward bond purchase commitments	4		Net investment income		Net investment gains (losses)
Total	$ 169	$ 14		$ 2	

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

29

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended September 30, 2013:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (199)	$ 15	Net investment income	$ (2)	Net investment gains (losses)
Interest rate swaps hedging liabilities	9		Interest expense		Net investment gains (losses)
Inflation indexed swaps	(2)	(3)	Net investment income		Net investment gains (losses)
Foreign currency swaps	(1)		Interest expense		Net investment gains (losses)
Forward bond purchase commitments	(11)		Net investment income		Net investment gains (losses)
Total	$ (204)	$ 12		$ (2)	

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 30, 2014:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 723	$ 45	Net investment income	$ 9	Net investment gains (losses)
	(42)	1	Interest expense		

Interest rate swaps hedging liabilities					Net investment gains (losses)
Inflation indexed swaps	(10)	(11)	Net investment income		Net investment gains (losses)
Foreign currency swaps	2		Net investment income		Net investment gains (losses)
Forward bond purchase commitments	32		Net investment income		Net investment gains (losses)
Total	$ 705	$ 35		$ 9	

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

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the nine months ended September 30, 2013:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (702)	$ 34	Net investment income	$ (12)	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	31	1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	32	(5)	Net investment income		Net investment gains (losses)
Foreign currency swaps	(1)		Interest expense		Net investment gains (losses)
Forward bond purchase commitments	(50)		Net investment income		Net investment gains (losses)
Total	$ (690)	$ 31		$ (12)	

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

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

(Amounts in millions)	Three months ended September 30, 2014	2013

Derivatives qualifying as effective accounting hedges as of July 1	$ 1,652	$ 1,581
Current period increases (decreases) in fair value, net of deferred taxes of $(59) and $73	110	(131)
Reclassification to net (income) loss, net of deferred taxes of $5 and $4	(9)	(8)
Derivatives qualifying as effective accounting hedges as of September 30	$ 1,753	$ 1,442

(Amounts in millions)	**Nine months ended September 30,**	
	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 $(248) and $244	457	(446)
Reclassification to net (income) loss, net of deferred taxes of $12 and $10	(23)	(21)
Derivatives qualifying as effective accounting hedges as of September 30	$ 1,753	$ 1,442

The total of derivatives designated as cash flow hedges of $1,753 million, net of taxes, recorded in stockholders equity as of September 30, 2014 is expected to be reclassified to net income (loss) in the future,

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, $51 million, net of taxes, is expected to be reclassified to net income (loss) in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2047. No amounts were reclassified to net income (loss) during the three or nine months ended September 30, 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 (loss). In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income (loss). We designate and account for the following as fair value hedges when they have met the effectiveness requirements: (i) interest rate swaps to convert fixed rate liabilities into floating rate liabilities; (ii) cross currency swaps to convert non-U.S. dollar fixed rate liabilities to floating rate U.S. dollar liabilities; and (iii) other instruments to hedge various fair value exposures of investments.

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the three months ended September 30, 2014 and 2013.

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the nine months ended September 30, 2014. The following table provides information about the pre-tax income (loss) effects of fair value hedges and related hedged items for the nine months ended September 30, 2013:

	Derivative instrument				Hedged item	
(Amounts in millions)	**Gain (loss) recognized in net income (loss)**	**Classification of gain (losses) recognized in net income (loss)**	**Other impacts to net income (loss)**	**Classification of other impacts to net income (loss)**	**Gain (loss) recognized in net income (loss)**	**Classification of gain (losses) recognized in net income (loss)**
Interest rate swaps hedging liabilities	$ (11)	Net investment gains (losses)	$ 12	Interest credited	$ 11	Net investment gains (losses)
Foreign currency swaps	(31)	Net investment gains (losses)		Interest credited	31	Net investment gains (losses)
Total	$ (42)		$ 12		$ 42	

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 (loss) 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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

options, equity return swaps, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits, fixed index annuities and indexed universal life; (iv) interest rate swaps where the hedging relationship does not qualify for hedge accounting; (v) credit default swaps to mitigate loss exposure to certain credit risk; (vi) foreign currency swaps, options and forward contracts to mitigate currency risk associated with non-functional currency investments held by certain foreign subsidiaries and future dividends or other cash flows from certain foreign subsidiaries to our holding company; and (vii) equity index options to mitigate certain macroeconomic risks associated with certain foreign subsidiaries. Additionally, we provide GMWBs on certain variable annuities that are required to be bifurcated as embedded derivatives. We also offer fixed index annuity and indexed universal life products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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

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

	Three months ended September 30,		**Classification of gain (loss) recognized**
(Amounts in millions)	**2014**	**2013**	**in net income (loss)**
Interest rate swaps	$ (3)	$ (3)	Net investment gains (losses)
Interest rate swaps related to securitization entities	1	(1)	Net investment gains (losses)
Credit default swaps		4	Net investment gains (losses)
Credit default swaps related to securitization entities	(2)	24	Net investment gains (losses)
Equity index options	(1)	(13)	Net investment gains (losses)
Financial futures	22	(28)	Net investment gains (losses)
Equity return swaps	6	(18)	Net investment gains (losses)
Other foreign currency contracts	5	(2)	Net investment gains (losses)
Foreign currency swaps	(4)		Net investment gains (losses)
GMWB embedded derivatives	(58)	46	Net investment gains (losses)
Fixed index annuity embedded derivatives	(7)	(3)	Net investment gains (losses)

Total derivatives not designated as hedges	$ (41)	$ 6

33

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps	$ (8)	$ (8)	Net investment gains (losses)
Interest rate swaps related to securitization entities	(5)	8	Net investment gains (losses)
Credit default swaps		10	Net investment gains (losses)
Credit default swaps related to securitization entities	16	49	Net investment gains (losses)
Equity index options	(19)	(31)	Net investment gains (losses)
Financial futures	66	(181)	Net investment gains (losses)
Equity return swaps	1	(27)	Net investment gains (losses)
Other foreign currency contracts	(6)	1	Net investment gains (losses)
Foreign currency swaps	(3)		Net investment gains (losses)
GMWB embedded derivatives	(87)	191	Net investment gains (losses)
Fixed index annuity embedded derivatives	(19)	(7)	Net investment gains (losses)
Total derivatives not designated as hedges	$ (64)	$ 5	

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:

	September 30, 2014					
(Amounts in millions)	Gross amounts recognized	Gross amounts offset in the balance sheet	Net amounts presented in the balance	Gross amounts not offset in the balance sheet	Over collateralization	Net amount

			sheet	Financial instruments [3]	Collateral pledged/ received		
Derivative assets [1]	$ 707	$	$ 707	$ (166)	$ (521)	$ 5	$ 25
Derivative liabilities [2]	236		236	(166)	(77)	9	2
Net derivatives	$ 471	$	$ 471	$	$ (444)	$ (4)	$ 23

(1) Included $43 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives.

(2) Included $26 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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	December 31, 2013						
				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]	$ 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 agreement. If the downgrade provisions had been triggered as of September 30, 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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	September 30, 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	$

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

	September 30, 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 in less than one year [(2)]	250	2				
9% - 12% matures after one year through five years [(2)]				250	5	
10% - 15% matures in less than one year [(3)]	250			250	2	
Total credit default swap index tranches	600	4		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		19	300		31

Total customized credit default swap index tranches related to securitization entities	312		19	312		32
Total credit default swaps on index tranches	$ 912	$ 4	$ 19	$ 912	$ 10	$ 32

(1) The current attachment/detachment as of September 30, 2014 and December 31, 2013 was 7% 15%.
(2) The current attachment/detachment as of September 30, 2014 and December 31, 2013 was 9% 12%.
(3) The current attachment/detachment as of September 30, 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,

36

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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

	September 30, 2014					
			Fair value			
(Amounts in millions)	Notional amount	Carrying amount	Total	Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	$ (1)	$ 6,077	$ 6,438	$	$	$ 6,438
Restricted commercial mortgage loans	(1)	209	234			234
Other invested assets	(1)	252	264		178	86
Liabilities:						
Long-term borrowings	(1)	4,662	5,111		4,983	128
Non-recourse funding obligations	(1)	2,010	1,445			1,445
Borrowings related to securitization entities	(1)	142	154		154	
Investment contracts	(1)	17,376	17,887		7	17,880
Other firm commitments:						
Commitments to fund limited partnerships	49					
Ordinary course of business lending commitments	112					

	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					
Ordinary course of business lending commitments	138					

[1] These financial instruments do not have notional amounts.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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. To evaluate the reasonableness of the internal model, we review a sample of private fixed maturity securities each month. In that review we compare the modeled prices to the prices of similar public securities in conjunction with analysis on current market indicators. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

For broker quotes, we consider the valuation methodology utilized by the third party and analyze a sample each month to assess reasonableness given then current market conditions. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For remaining securities priced using internal models, we 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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

GMWB embedded derivatives

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

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of September 30, 2014 and December 31, 2013, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $66 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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

Fixed index annuity embedded derivatives

We 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.

Indexed universal life embedded derivatives

We offer indexed universal life products where interest is credited to the policyholder s account balance based on equity index changes. This feature is required to be bifurcated as an embedded derivative and recorded at fair value. Fair value is determined using an income approach where the present value of the excess cash flows above the guaranteed cash flows is used to determine the value attributed to the equity index feature. The inputs 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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

Table of Contents

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:

	September 30, 2014			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 5,642	$	$ 5,638	$ 4
Tax-exempt	356		356	
Government non-U.S.	2,035		2,028	7
U.S. corporate	26,956		24,464	2,492
Corporate non-U.S.	15,637		13,767	1,870
Residential mortgage-backed	5,155		5,073	82
Commercial mortgage-backed	2,728		2,723	5
Other asset-backed	3,808		2,396	1,412
Total fixed maturity securities	62,317		56,445	5,872
Equity securities	313	237	10	66
Other invested assets:				
Trading securities	226		226	
Derivative assets:				
Interest rate swaps	626		626	
Foreign currency swaps	4		4	
Credit default swaps	5		1	4
Equity index options	11			11
Equity return swaps	5		5	
Forward bond purchase commitments	5		5	
Other foreign currency contracts	8		8	
Total derivative assets	664		649	15
Securities lending collateral	339		339	
Derivatives counterparty collateral	109		109	
Total other invested assets	1,338		1,323	15

Restricted other invested assets related to securitization entities	404		180	224
Reinsurance recoverable [1]	8			8
Separate account assets	9,420	9,420		
Total assets	$ 73,800	$ 9,657	$ 57,958	$ 6,185
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [2]	$ 218	$	$	$ 218
Fixed index annuity embedded derivatives	246			246
Indexed universal life embedded derivatives	3			3
Total policyholder account balances	467			467
Derivative liabilities:				
Interest rate swaps	129		129	
Interest rate swaps related to securitization entities	22		22	
Inflation indexed swaps	70		70	
Foreign currency swaps	3		3	
Credit default swaps related to securitization entities	19			19
Other foreign currency contracts	8		8	
Total derivative liabilities	251		232	19
Borrowings related to securitization entities	83			83
Total liabilities	$ 801	$	$ 232	$ 569

[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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	December 31, 2013 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.

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

47

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 (loss)
(Amounts in millions)	**Beginning balance as of July 1, 2014**	**Included in net income (loss)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2014**	**attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 4	$	$	$	$	$	$	$	$	$ 4	$
Government non-U.S.	25						(2)		(16)	7	
U.S. corporate [1]	2,423	11	(16)	55			(108)	127		2,492	
Corporate non-U.S.	1,854	1	(6)	61			(53)	42	(29)	1,870	
	73		(3)	16			(3)		(1)	82	

Residential mortgage-backed											
Commercial mortgage-backed	5		(1)					1		5	
Other asset-backed [1]	1,268	1	2	66	(10)		(48)	134	(1)	1,412	
Total fixed maturity securities	5,652	13	(24)	198	(10)		(214)	304	(47)	5,872	
Equity securities	67				(1)					66	
Other invested assets:											
Trading securities	31								(31)		
Derivative assets:											
Credit default swaps	6						(2)			4	
Equity index options	4	(1)		8						11	
Total derivative assets	10	(1)		8			(2)			15	
Total other invested assets	41	(1)		8			(2)		(31)	15	
Restricted other invested assets related to securitization entities	224	(1)		1						224	(1)
Reinsurance recoverable [2]	3	5								8	5
Total Level 3 assets	$ 5,987	$ 16	$ (24)	$ 207	$ (11)	$	$ (216)	$ 304	$ (78)	$ 6,185	$ 4

(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 July 1, 2013**	**Included in net income (loss)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2013**	**Total gains (losses) included in net income (loss) attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 5	$	$	$	$	$	$	$	$	$ 5	$
Government non-U.S.	8						(1)			7	
U.S. corporate [1]	2,459	5	(3)	17	(10)		(83)	33	(87)	2,331	4
Corporate non-U.S. [1]	1,846	1	(9)	25	(14)		(42)	76		1,883	1
Residential mortgage-backed	116	(7)	8		(1)		(5)	14		125	
Commercial mortgage-backed	13	(1)					(6)	2	(2)	6	(1)
Other asset-backed [1]	1,021	1	(7)	50			(18)	59	(9)	1,097	1
Total fixed maturity securities	5,468	(1)	(11)	92	(25)		(155)	184	(98)	5,454	5
Equity securities	88		1		(4)					85	
Other invested assets:											
Trading securities	34									34	
Derivative assets:											
Credit default swaps	6	4					(2)			8	3
Equity index options	13	(13)		6						6	(14)
Other foreign currency contracts		(1)		4						3	(1)

Total derivative assets	19	(10)		10			(2)			17	(12)
Total other invested assets	53	(10)		10			(2)			51	(12)
Restricted other invested assets related to securitization entities	193							19		212	
Reinsurance recoverable [2]	3	(1)				1				3	(1)
Total Level 3 assets	$ 5,805	$ (12)	$ (10)	$ 102	$ (29)	$ 1	$ (157)	$ 203	$ (98)	$ 5,805	$ (8)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate, private fixed rate corporate non-U.S. and structured securities. For private fixed rate U.S. corporate and corporate non-U.S. securities, the transfers into and out of Level 3 resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out. For structured securities, the transfers into and out of Level 3 were attributable to the changes in the observability of inputs used in the valuation as a result of liquidity or marketability of certain instruments that had a significant impact on the primary pricing source used to value the instruments.

(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)

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

(Amounts in millions)	Beginning balance as of January 1, 2014	Total realized and unrealized gains (losses) Included in net income (loss)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2014	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 5	$	$	$	$	$	$ (1)	$	$	$ 4	$
Government non-U.S.	23			3			(3)		(16)	7	
U.S. corporate [(1)]	2,400	22	53	200	(39)		(208)	228	(164)	2,492	12
Corporate non-U.S.	1,819	3	42	229	(76)		(143)	57	(61)	1,870	2
Residential mortgage-backed	105		(1)	16	(23)		(8)	24	(31)	82	
Commercial mortgage-backed	6		2				(2)	7	(8)	5	
Other asset-backed [(1)]	1,166	4	9	277	(15)		(126)	192	(95)	1,412	1
Total fixed maturity securities	5,524	29	105	725	(153)		(491)	508	(375)	5,872	15
Equity securities	78				(12)					66	
Other invested assets:											

Trading securities	34						(3)		(31)		
Derivative assets:											
Credit default swaps	10						(6)			4	
Equity index options	12	(19)		18						11	(18)
Other foreign currency contracts	3	(2)			(1)						
Total derivative assets	25	(21)		18	(1)		(6)			15	(18)
Total other invested assets	59	(21)		18	(1)		(9)		(31)	15	(18)
Restricted other invested assets related to securitization entities	211	12		1						224	12
Reinsurance recoverable [2]	(1)	7				2				8	7
Total Level 3 assets	$ 5,871	$ 27	$ 105	$ 744	$ (166)	$ 2	$ (500)	$ 508	$ (406)	$ 6,185	$ 16

(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 (loss)**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2013**	**Total gains (losses) included in net income (loss) attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 9	$	$	$	$	$	$ (4)	$	$	$ 5	$
Government non-U.S.	9						(2)			7	
U.S. corporate [(1)]	2,683	13	(34)	110	(131)		(319)	145	(136)	2,331	8
Corporate non-U.S. [(1)]	1,983	2	(37)	94	(33)		(149)	76	(53)	1,883	2
Residential mortgage-backed	157	(9)	9		(6)		(24)	14	(16)	125	
Commercial mortgage-backed	35	(5)	(1)				(32)	11	(2)	6	(4)
Other asset-backed [(1)]	864	4	8	174	(44)		(89)	189	(9)	1,097	4
Total fixed maturity securities	5,740	5	(55)	378	(214)		(619)	435	(216)	5,454	10
Equity securities	99	2		1	(17)					85	
Other invested assets:											
Trading securities	76	7			(40)		(9)			34	2
Derivative assets:											
Interest rate swaps	2	(1)					(1)				(1)
Credit default swaps	7	8					(7)			8	6
Equity index options	25	(30)		20			(9)			6	(30)
		(1)		4						3	(1)

Other foreign currency contracts											
Total derivative assets	34	(24)		24			(17)			17	(26)
Total other invested assets	110	(17)		24	(40)		(26)			51	(24)
Restricted other invested assets related to securitization entities	194	(1)						19		212	(1)
Other assets [2]	9						(9)				
Reinsurance recoverable [3]	10	(9)				2				3	(9)
Total Level 3 assets	$ 6,162	$ (20)	$ (55)	$ 403	$ (271)	$ 2	$ (654)	$ 454	$ (216)	$ 5,805	$ (24)

(1) The transfers into and out of Level 3 were primarily related to private fixed rate U.S. corporate, private fixed rate corporate non-U.S. securities and structured securities. For private fixed rate U.S. corporate and corporate non-U.S. securities, the transfers into and out of Level 3 resulted from a change in the observability of the additional premium to the public bond spread to adjust for the liquidity and other features of our private placements and resulted in unobservable inputs having a significant impact on certain valuations for transfers in or no longer having significant impact on certain valuations for transfers out. For structured securities, the transfers into and out of Level 3 were attributable to the changes in the observability of inputs used in the valuation as a result of liquidity or marketability of certain instruments that had a significant impact on the primary pricing source used to value the instruments.

(2) Represents contingent receivables associated with recent business dispositions.

(3) 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)

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

(Amounts in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Total realized and unrealized gains (losses) included in net income (loss):				
Net investment income	$ 13	$ 8	$ 34	$ 28
Net investment gains (losses)	3	(20)	(7)	(48)
Total	$ 16	$ (12)	$ 27	$ (20)
Total gains (losses) included in net income (loss) attributable to assets still held:				
Net investment income	$ 1	$ 8	$ 18	$ 25
Net investment gains (losses)	3	(16)	(2)	(49)
Total	$ 4	$ (8)	$ 16	$ (24)

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

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

(Amounts in millions)	Beginning balance as of July 1, 2014	Total realized and unrealized (gains) losses: Included in net (income)	Total realized and unrealized (gains) losses: Included in	Purchases	Sales	Issuances	Settlements	Transfer into	Transfer out	Ending balance as of September 30, 2014	Total (gains) losses included in net (income) loss attributable

		loss	OCI					Level 3	of Level 3		to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 146	$ 63	$	$	$	$ 9	$	$	$	$ 218	$ 63
Fixed index annuity embedded derivatives	219	7				21	(1)			246	7
Indexed universal life embedded derivatives	2					1				3	
Total policyholder account balances	367	70				31	(1)			467	70
Derivative liabilities:											
Credit default swaps related to securitization entities	16	2		1						19	2
Total derivative liabilities	16	2		1						19	2
Borrowings related to securitization entities	83									83	
Total Level 3 liabilities	$ 466	$ 72	$	$ 1	$	$ 31	$ (1)	$	$	$ 569	$ 72

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

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Beginning balance as of July 1, 2013	Total realized and unrealized (gains) losses		Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2013	Total (gains) losses included in net (income) loss attributable to liabilities still held
		Included in net (income) loss	Included in OCI								
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 215	$ (47)	$	$	$	$ 9	$	$	$	$ 177	$ (47)
Fixed index annuity embedded derivatives	44	3				36				83	3
Total policyholder account balances	259	(44)				45				260	(44)
Derivative liabilities:											
Credit default swaps related to securitization entities	80	(23)		2						59	(23)
Equity index options	1						(1)				
Other foreign currency contracts				3						3	
Total derivative liabilities	81	(23)		5			(1)			62	(23)
Borrowings related to securitization entities	74	(1)								73	(1)
Total Level 3 liabilities	$ 414	$ (68)	$	$ 5	$	$ 45	$ (1)	$	$	$ 395	$ (68)

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

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

(Amounts in millions)	Beginning balance as of January 1, 2014	Total realized and unrealized (gains) losses		Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of September 30, 2014	Total (gains) losses included in net (income) loss attributable to liabilities still held
		Included in net (income) loss	Included in OCI								
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 96	$ 94	$	$	$	$ 28	$	$	$	$ 218	$ 96
Fixed index annuity embedded derivatives	143	19				86	(2)			246	19
Indexed universal life embedded derivatives						3				3	
Total policyholder account balances	239	113				117	(2)			467	115
Derivative liabilities:											
Credit default swaps related to securitization entities	32	(16)		3						19	(16)
Other foreign currency contracts	1	1			(2)						
Total derivative liabilities	33	(15)		3	(2)					19	(16)
Borrowings related to securitization entities	75	8								83	8
Total Level 3 liabilities	$ 347	$ 106	$	$ 3	$ (2)	$ 117	$ (2)	$	$	$ 569	$ 107

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

53

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) loss**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of Level 3**	**Ending balance as of September 30, 2013**	**Total (gains) losses included in net (income) loss attributable to liabilities still held**
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 350	$ (200)	$ —	$ —	$ —	$ 27	$ —	$ —	$ —	$ 177	$ (198)
Fixed index annuity embedded derivatives	27	7				49				83	7
Total policyholder account balances	377	(193)				76				260	(191)
Derivative liabilities:											
Credit default swaps	1	(1)									(1)
Credit default swaps related to securitization entities	104	(49)		4						59	(49)
Equity index options		1					(1)				1
Other foreign currency contracts				3						3	
Total derivative liabilities	105	(49)		7			(1)			62	(49)
Borrowings related to securitization entities	62	11								73	11
Total Level 3 liabilities	$ 544	$ (231)	$ —	$ 7	$ —	$ 76	$ (1)	$ —	$ —	$ 395	$ (229)

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

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

(Amounts in millions)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Total realized and unrealized (gains) losses included in net (income) loss:				
Net investment income	$	$	$	$
Net investment (gains) losses	72	(68)	106	(231)
Total	$ 72	$ (68)	$ 106	$ (231)
Total (gains) losses included in net (income) loss attributable to liabilities still held:				
Net investment income	$	$	$	$
Net investment (gains) losses	72	(68)	107	(229)
Total	$ 72	$ (68)	$ 107	$ (229)

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Purchases, sales, issuances and settlements represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily consists of purchases, sales and settlements of fixed maturity, equity and trading securities and purchases, issuances and settlements of derivative instruments.

Issuances and settlements presented for policyholder account balances represent the issuances and settlements of embedded derivatives associated with our GMWB liabilities where: issuances are characterized as the change in fair value associated with the product fees recognized that are attributed to the embedded derivative to equal the expected future benefit costs upon issuance and settlements are characterized as the change in fair value upon exercising the embedded derivative instrument, effectively representing a settlement of the embedded derivative instrument. We have shown these changes in fair value separately based on the classification of this activity as effectively issuing and settling the embedded derivative instrument with all remaining changes in the fair value of these embedded derivative instruments being shown separately in the category labeled included in net (income) loss in the tables presented above.

Certain classes of instruments classified as Level 3 are excluded below as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value. The following table presents a summary of the significant unobservable inputs used for certain fair value measurements that are based on internal models and classified as Level 3 as of September 30, 2014:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range (weighted-average)
Assets				
Fixed maturity securities:				
U.S. corporate	Internal models	$ 2,264	Credit spreads	65bps - 465bps (168bps)
Corporate non-U.S.	Internal models	1,739	Credit spreads	68bps - 247bps (132bps)
Derivative assets:				
Credit default swaps	Discounted cash flows	4	Credit spreads	8bps - 32bps (14bps)
Equity index options	Discounted cash flows	11	Equity index volatility	13% - 23% (20%)
Liabilities				
Policyholder account balances:				
			Withdrawal utilization rate	% - 98%
			Lapse rate	% - 15%
			Non-performance risk	35bps - 85bps (69bps)

			(credit spreads)	
GMWB embedded derivatives [1]	Stochastic cash flow model	218	Equity index volatility	16% - 24% (20%)
Fixed index annuity embedded derivatives	Option budget method	246	Expected future interest credited	% - 3% (2%)
Indexed universal life embedded derivatives	Option budget method	3	Expected future interest credited	3% - 8% (5%)

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7) Commitments and Contingencies

(a) Litigation and Regulatory Matters

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, increases to in-force long-term care insurance premiums, payment of contingent or other sales commissions, claims payments and procedures, product design, product disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement and Procedures Act of 1974 (RESPA) or related state anti-inducement laws, and mortgage insurance policy rescissions and curtailments, and breaching fiduciary or other duties to customers, including but not limited to breach of customer information. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have a material adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have a material adverse effect on our business, financial condition or results of operations.

In August 2014, Genworth Financial, Inc., its current chief executive officer and its current chief financial officer were named in a putative class action lawsuit captioned *Manuel Esguerra v. Genworth Financial, Inc.*, *et al*, in the United States District Court for the Southern District of New York. Plaintiff alleges securities law violations involving certain disclosures in 2013 and 2014 concerning Genworth s long-term care insurance reserves. The lawsuit seeks unspecified compensatory damages, costs and expenses, including counsel fees and expert fees. In October 2014, a putative class action lawsuit captioned *City of Pontiac General Employees Retirement System v. Genworth Financial, Inc.*, *et al*, was filed in the United States District Court for the Eastern District of Virginia. This lawsuit names the same defendants, alleges the same security law violations, seeks the same damages and covers the same class as the *Esguerra* lawsuit. Following the filing of the *City of Pontiac* lawsuit, the *Esguerra* lawsuit was voluntarily dismissed without prejudice allowing the *City of Pontiac* lawsuit to proceed. The United States District Court for the Eastern District of Virginia has not yet designated a Lead Plaintiff. We intend to vigorously defend this action.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

As previously disclosed, in December 2009, one of our former non-insurance subsidiaries, one of the former subsidiary s officers and Genworth Financial, Inc. (now known as Genworth Holdings, Inc.) were named in a putative class action lawsuit captioned *Michael J. Goodman and Linda Brown v. Genworth Financial Wealth Management, Inc. et al.*, in the United States District Court for the Eastern District of New York. Plaintiffs allege securities law and other violations involving the selection of mutual funds by our former subsidiary on behalf of certain of its Private Client Group clients. The lawsuit seeks unspecified monetary and other relief. Oral argument on plaintiffs motion to certify a class action was conducted on January 30, 2013. On April 15, 2014, the court issued its decision denying the plaintiffs motion to certify a class. On April 29, 2014 plaintiffs filed a motion with the Second Circuit Court of Appeals for leave to appeal the District Court s denial of their motion to certify a class, which we opposed. On July 9, 2014, the Second Circuit Court of Appeals denied plaintiffs motion.

As previously disclosed, in April 2012, two of our U.S. mortgage insurance subsidiaries were named as respondents in two arbitrations, one brought by Bank of America, N.A. and one brought by Countrywide Home Loans, Inc. and Bank of America, N.A. as claimants. Claimants alleged breach of contract and breach of the covenant of good faith and fair dealing and sought a declaratory judgment relating to our denial, curtailment and rescission of mortgage insurance coverage. In June 2012, our U.S. mortgage insurance subsidiaries responded to the arbitration demands and asserted numerous counterclaims against the claimants. On December 31, 2013, the parties reached an agreement to resolve that portion of both arbitrations involving rescission practices, which settlement took effect in the second quarter of 2014. As a result, the arbitration demands and counterclaims related to that portion of both arbitrations involving rescission practices were dismissed in the third quarter of 2014. In October 2014, the parties executed a definitive settlement agreement to settle all remaining claims in the arbitrations. Implementation of the settlement to resolve the remaining claims is subject to the consent of the government-sponsored enterprises (GSEs). The settlement provides that our U.S. mortgage insurance subsidiaries will remit a portion of the previously curtailed claim amounts to Bank of America, N.A. and will agree to certain limits on future curtailment activity for loans that are part of the settlement. Once the consents of the GSEs are obtained, which is anticipated to occur prior to the end of the first half of 2015, the parties will move to dismiss all remaining matters in the arbitration.

In addition to the negotiated settlement with Bank of America, N.A. discussed above, we engage from time to time in discussions with other lenders and servicers over disputed loss mitigation activities. During the third quarter of 2014, we engaged in discussions with another servicer in an effort to resolve a pending dispute that does not currently involve any formal legal proceeding. We have recorded an aggregate increase in our claim reserves for our U.S. mortgage insurance business of $53 million principally to provide for the anticipated financial impact in connection with the settlement of the Bank of America, N.A. arbitration discussed above, as well as the other dispute. The ultimate cost of resolving the other dispute (and the remaining claims involving Bank of America, N.A. in the event the settlement is not approved by the GSEs) may be higher than the amounts we have currently reserved for these matters.

As previously disclosed, beginning in December 2011 and continuing through January 2013, one of our U.S. mortgage insurance subsidiaries was named along with several other mortgage insurers and mortgage lenders as a defendant in twelve putative class action lawsuits alleging that certain captive reinsurance arrangements were in

violation of RESPA. On June 26, 2014, the court in the *Hill* action granted our motion for summary judgment. In July 2014, the *Hill* plaintiffs filed a notice of appeal with the Third Circuit Court of Appeals. In the *Riddle* case, in November 2013, the United States District Court for the Eastern District of Pennsylvania granted our motion for summary judgment dismissing the case. Plaintiffs appealed this dismissal. In October 2014, the Third Circuit Court of Appeals upheld the dismissal of the *Riddle* action. We intend to vigorously defend the remaining actions.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At this time, we cannot determine or predict the ultimate outcome of any of the pending legal and regulatory matters specifically identified above or the likelihood of potential future legal and regulatory matters against us. In light of the inherent uncertainties involved in these matters, except as disclosed above, no amounts have been accrued, nor are we able to provide an estimate or range of possible losses related to these matters.

(b) Commitments

As of September 30, 2014, we were committed to fund $49 million in limited partnership investments, $109 million in U.S. commercial mortgage loans and $3 million in private placement investments.

(8) Borrowings and Other Financings

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

(Amounts in millions)	September 30, 2014	December 31, 2013
5.75% Senior Notes, due 2014 (1)	$	$ 485
4.59% Senior Notes, due 2015 (2)		141
8.625% Senior Notes, due 2016 (1)	300	300
6.52% Senior Notes, due 2018 (1)	600	600
5.68% Senior Notes, due 2020 (2)	245	258
7.70% Senior Notes, due 2020 (1)	400	400
7.20% Senior Notes, due 2021 (1)	399	399
7.625% Senior Notes, due 2021 (1)	758	759
Floating Rate Junior Notes, due 2021 (3)	123	125
4.90% Senior Notes, due 2023 (1)	399	399
4.24% Senior Notes, due 2024 (2)	143	
4.80% Senior Notes, due 2024 (1)	400	400
6.50% Senior Notes, due 2034 (1)	297	297
6.15% Junior Notes, due 2066	598	598
Total	$ 4,662	$ 5,161

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

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

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

We repaid $485 million of our 5.75% senior notes that matured in June 2014.

On April 1, 2014, Genworth Canada, our majority-owned subsidiary, issued CAD$160 million of 4.24% senior notes due 2024. The senior notes are redeemable at the option of Genworth Canada, in whole or in part, at any time. The net proceeds of the offering were used to redeem, in full, its existing senior notes due December 2015 with a principal amount of CAD$150 million and bearing a fixed annual interest rate of 4.59%. In conjunction with the redemption, Genworth Canada made an early redemption payment to existing noteholders of approximately CAD$7 million and accrued interest of approximately CAD$2 million in the second quarter of 2014.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(9) Income Taxes

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

(Amounts in millions)	**Three months ended September 30, 2014**		**2013**		**Nine months ended September 30, 2014**		**2013**	
Pre-tax income (loss)	$ (972)		$ 251		$ (353)		$ 735	
Statutory U.S. federal income tax rate	$ (340)	35.0%	$ 88	35.0%	$ (124)	35.0%	$ 257	35.0%
Increase (reduction) in rate resulting from:								
State income tax, net of federal income tax effect	(3)	0.3	2	0.9	(2)	0.6	8	1.1
Benefit on tax favored investments	(1)	0.1	(6)	(2.4)	(3)	0.8	(9)	(1.2)
Effect of foreign operations	(5)	0.5	(17)	(6.6)	(46)	13.1	(40)	(5.4)
Non-deductible expenses			1	0.5	1	(0.4)	3	0.4
Valuation allowance			15	5.8	(1)	0.4	15	2.0
Non-deductible goodwill	163	(16.7)			163	(46.1)		
Stock-based compensation			20	8.0	8	(2.2)	20	2.7
Other, net	1	(0.2)	2	0.6	(9)	2.5		
Effective rate	$ (185)	19.0%	$ 105	41.8%	$ (13)	3.7%	$ 254	34.6%

For the three months ended September 30, 2014, the decrease in the effective tax rate was primarily attributable to non-deductible goodwill impairments in the current year. The decrease in the effective tax rate was also attributable mainly to two specific items from the prior year: additional tax expense related to non-deductible stock compensation expense as a result of cancellations as well as a valuation allowance on a deferred tax asset on a specific separate tax return net operating loss that was no longer expected to be realized.

For the nine months ended September 30, 2014, the decrease in the effective tax rate was primarily attributable to non-deductible goodwill impairments in the current year.

(10) Segment Information

We operate through three divisions: U.S. Life Insurance, Global Mortgage Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The U.S. Life Insurance Division includes the U.S. Life

Insurance segment. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. Our operating business segments are as follows: (1) U.S. Life Insurance, which includes our life insurance, long-term care insurance and fixed annuities businesses; (2) International Mortgage Insurance, which includes mortgage insurance-related products and services; (3) U.S. Mortgage Insurance, which includes mortgage insurance-related products and services; (4) International Protection, which includes our lifestyle protection insurance business; and (5) Runoff, which 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. Institutional products consist of: funding agreements, FABNs and GICs.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss). We define net operating income (loss) as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and infrequent or unusual non-operating items. Gains (losses) on insurance block transactions are defined as gains (losses) on the early extinguishment of non-recourse funding obligations, early termination fees for other financing restructuring and/or resulting gains (losses) on reinsurance restructuring for certain blocks of business. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions are also excluded from net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) if, in our opinion, they are not indicative of overall operating trends.

In the fourth quarter of 2013, we revised our definition of net operating income (loss) to exclude gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that they are not indicative of overall operating trends. All prior periods have been re-presented to reflect this new definition.

In the third quarter of 2014, we recorded goodwill impairments of $350 million, net of taxes, in our life insurance business and $167 million, net of taxes, in our long-term care insurance business.

The following transactions were excluded from net operating income (loss) for the periods presented as they related to the loss on the early extinguishment of debt. In the second quarter of 2014, we paid an early redemption payment of approximately $2 million, net of taxes and portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada s notes that were scheduled to mature in 2015. In the third quarter of 2013, we paid a make-whole expense of approximately $20 million, net of taxes, related to the early redemption of Genworth Holdings notes that were scheduled to mature in 2015.

There were no infrequent or unusual items excluded from net operating income (loss) during the periods presented other than a $13 million, net of taxes, expense recorded in the second quarter of 2013 related to restructuring costs.

While some of these items may be significant components of net income (loss) available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income (loss), and measures that are derived from or incorporate net operating income (loss), are appropriate measures

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. Management also uses net operating income (loss) as a basis for determining awards and compensation for senior management and to evaluate performance on a basis comparable to that used by analysts. However, the items excluded from net operating income (loss) have occurred in the past and could, and in some cases will, recur in the future. Net operating income (loss) is not a substitute for net income (loss) available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income (loss) may differ from the definitions used by other companies.

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

The following is a summary of revenues for our segments and Corporate and Other activities for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Revenues:				
U.S. Life Insurance segment:				
Life insurance	$ 510	$ 492	$ 1,494	$ 1,488
Long-term care insurance	879	846	2,607	2,447
Fixed annuities	277	249	791	776
U.S. Life Insurance segment s revenues	1,666	1,587	4,892	4,711
International Mortgage Insurance segment:				
Canada	163	190	511	576
Australia	136	131	401	418
Other Countries	10	8	25	29
International Mortgage Insurance segment s revenues	309	329	937	1,023
U.S. Mortgage Insurance segment s revenues	165	156	476	461
International Protection segment s revenues	214	187	644	594
Runoff segment s revenues	53	73	215	185

Corporate and Other s revenues	(3)	(15)	(23)	17
Total revenues	$ 2,404	$ 2,317	$ 7,141	$ 6,991

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following is a summary of net operating income (loss) for our segments and Corporate and Other activities and a reconciliation of net operating income (loss) for our segments and Corporate and Other activities to net income (loss) for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
U.S. Life Insurance segment:				
Life insurance	$ 13	$ 54	$ 73	$ 117
Long-term care insurance	(361)	41	(309)	87
Fixed annuities	26	16	77	71
U.S. Life Insurance segment s net operating income (loss)	(322)	111	(159)	275
International Mortgage Insurance segment:				
Canada	46	41	134	126
Australia	48	61	167	162
Other Countries	(7)	(12)	(18)	(28)
International Mortgage Insurance segment s net operating income	87	90	283	260
U.S. Mortgage Insurance segment s net operating income (loss)	(2)	(3)	70	31
International Protection segment s net operating income	3	4	12	11
Runoff segment s net operating income	5	25	32	47
Corporate and Other s net operating loss	(88)	(88)	(203)	(201)
Net operating income (loss)	(317)	139	35	423
Net investment gains (losses), net	(10)	(13)		(26)
Goodwill impairment, net	(517)		(517)	
Gains (losses) on early extinguishment of debt, net		(20)	(2)	(20)
Expenses related to restructuring, net				(13)
Income (loss) from discontinued operations, net of taxes		2		(12)
	(844)	108	(484)	352

Net income (loss) available to Genworth Financial, Inc. s common stockholders				
Add: net income attributable to noncontrolling interests	57	40	144	117
Net income (loss)	$ (787)	$ 148	$ (340)	$ 469

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

(Amounts in millions)	September 30, 2014	December 31, 2013
Assets:		
U.S. Life Insurance	$ 81,614	$ 77,261
International Mortgage Insurance	9,223	9,194
U.S. Mortgage Insurance	2,322	2,361
International Protection	1,943	2,061
Runoff	13,152	14,062
Corporate and Other	2,260	3,106
Total assets	$ 110,514	$ 108,045

62

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(11) Changes in Accumulated Other Comprehensive Income (Loss)

The following tables show the changes in accumulated OCI, net of taxes, by component as of and for the periods indicated:

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total
Balances as of July 1, 2014	$ 2,128	$ 1,652	$ 381	$ 4,161
OCI before reclassifications	(63)	110	(379)	(332)
Amounts reclassified from (to) OCI	(4)	(9)		(13)
Current period OCI	(67)	101	(379)	(345)
Balances as of September 30, 2014 before noncontrolling interests	2,061	1,753	2	3,816
Less: change in OCI attributable to noncontrolling interests	(6)		(112)	(118)
Balances as of September 30, 2014	$ 2,067	$ 1,753	$ 114	$ 3,934

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total

Balances as of July 1, 2013	$ 1,294	$ 1,581	$ 267	$ 3,142
OCI before reclassifications	(197)	(131)	144	(184)
Amounts reclassified from (to) OCI	11	(8)		3
Current period OCI	(186)	(139)	144	(181)
Balances as of September 30, 2013 before noncontrolling interests	1,108	1,442	411	2,961
Less: change in OCI attributable to noncontrolling interests	(1)		23	22
Balances as of September 30, 2013	$ 1,109	$ 1,442	$ 388	$ 2,939

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2014	$ 926	$ 1,319	$ 297	$ 2,542
OCI before reclassifications	1,186	457	(252)	1,391
Amounts reclassified from (to) OCI	(7)	(23)		(30)
Current period OCI	1,179	434	(252)	1,361
Balances as of September 30, 2014 before noncontrolling interests	2,105	1,753	45	3,903
Less: change in OCI attributable to noncontrolling interests	38		(69)	(31)
Balances as of September 30, 2014	$ 2,067	$ 1,753	$ 114	$ 3,934

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2013	$ 2,638	$ 1,909	$ 655	$ 5,202
OCI before reclassifications	(1,586)	(446)	(313)	(2,345)
Amounts reclassified from (to) OCI	19	(21)		(2)
Current period OCI	(1,567)	(467)	(313)	(2,347)
	1,071	1,442	342	2,855

Balances as of September 30, 2013 before noncontrolling interests				
Less: change in OCI attributable to noncontrolling interests	(38)		(46)	(84)
Balances as of September 30, 2013	$ 1,109	$ 1,442	$ 388	$ 2,939

(1) Net of adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves. See note 4 for additional information.

(2) See note 5 for additional information.

The foreign currency translation and other adjustments balance included $6 million and $26 million, respectively, net of taxes of $1 million and $13 million, respectively, related to a net unrecognized postretirement benefit obligation as of September 30, 2014 and 2013. Amount also included taxes of $35 million and $50 million, respectively, related to foreign currency translation adjustments as of September 30, 2014 and 2013.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table shows reclassifications in (out) of accumulated other comprehensive income (loss), net of taxes, for the periods presented:

(Amounts in millions)	Amount reclassified from accumulated other comprehensive income — Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Affected line item in the consolidated statements of income
Net unrealized investment (gains) losses:					
Unrealized (gains) losses on investments [1]	$ (6)	$ 17	$ (11)	$ 29	Net investment (gains) losses
Provision for income taxes	2	(6)	4	(10)	Provision for income taxes
Total	$ (4)	$ 11	$ (7)	$ 19	
Derivatives qualifying as hedges:					
Interest rate swaps hedging assets	$ (17)	$ (15)	$ (45)	$ (34)	Net investment income
Interest rate swaps hedging assets				(1)	Net investment (gains) losses
Interest rate swaps hedging liabilities			(1)	(1)	Interest expense
Inflation indexed swaps	3	3	11	5	Net investment income
Provision for income taxes	5	4	12	10	Provision for income taxes
Total	$ (9)	$ (8)	$ (23)	$ (21)	

(1) Amounts exclude adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves.

65

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(12) Liability for Policy and Contract Claims

The following table sets forth changes in the liability for policy and contract claims for the dates indicated:

(Amounts in millions)	As of or for the nine months ended September 30, 2014	2013
Beginning balance	$ 7,204	$ 7,509
Less reinsurance recoverables	(1,835)	(1,722)
Net beginning balance	5,369	5,787
Incurred related to insured events of:		
Current year [1]	2,524	2,386
Prior years [2]	629	(74)
Total incurred	3,153	2,312
Paid related to insured events of:		
Current year	(864)	(765)
Prior years	(1,782)	(1,974)
Total paid	(2,646)	(2,739)
Interest on liability for policy and contract claims	138	132
Foreign currency translation	(26)	(23)
Net ending balance	5,988	5,469
Add reinsurance recoverables	1,999	1,802
Ending balance	$ 7,987	$ 7,271

(1) For the nine months ended September 30, 2014, current year reserves related to our U.S. Mortgage Insurance segment were reduced by loss mitigation activities of $26 million related to workouts, loan modifications and pre-sales. For the nine months ended September 30, 2013, current year reserves related to our U.S. Mortgage

Insurance segment were reduced by loss mitigation activities of $31 million related to workouts, loan modifications and pre-sales.

(2) Loss mitigation actions related to prior year delinquencies resulted in a reduction of expected losses in prior year reserves of $257 million for the nine months ended September 30, 2014, including $250 million related to workouts, loan modifications and pre-sales, and $7 million related to rescissions, net of reinstatements of $1 million. Loss mitigation actions related to prior year delinquencies resulted in a reduction of expected losses in prior year reserves of $408 million for the nine months ended September 30, 2013, including $398 million related to workouts, loan modifications and pre-sales, and $10 million related to rescissions, net of reinstatements of $11 million.

We establish reserves for the ultimate cost of settling claims on reported and unreported insured events that have occurred on or before the respective reporting period. These liabilities are associated primarily with our mortgage, long-term care and lifestyle protection insurance products and represent our best estimates of the liabilities at the time based on known facts, trends and other external factors, including, economic conditions, housing prices, employment rates, mortality, morbidity and medical costs.

While the liability for policy and contract claims represents our current best estimates, there may be future adjustments to these amounts based on information not presently known. Such adjustments, reflecting any variety

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

of new and adverse or favorable trends, could possibly be significant, exceeding the currently recorded reserves by an amount that could be material to our results of operations, financial condition and liquidity.

Long-term care insurance

As of September 30, 2014, the liability for policy and contract claims, before reinsurance, of our long-term care insurance business increased to $6,011 million from $4,999 million as of December 31, 2013 largely as a result of a $604 million increase primarily related to the completion of a comprehensive review of our long-term care insurance claim reserves conducted over the past few months. This review was commenced as a result of adverse claims experience during the second quarter of 2014 and in connection with our regular review of our claims reserve assumptions during the third quarter of each year. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. In conducting the review, we increased the population of claims reviewed, utilizing more of our recent data. During the third quarter of 2014, we also recorded a $61 million unfavorable correction related to a calculation of benefit utilization for policies with a benefit inflation option. This error arose prior to 2011 and was not material to earnings in any interim or annual period. The remaining increase was also attributable to aging and growth of the in-force block and higher frequency of new claims in the current year.

Incurred losses in our long-term care insurance business increased $772 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 largely as a result of a $531 million increase in claim reserves, net of reinsurance, primarily related to changes in assumptions and methodologies discussed above. During the third quarter of 2014, we also recorded a $54 million, net of reinsurance, unfavorable correction related to a calculation of benefit utilization for policies with a benefit inflation option. The increase was also attributable to aging and growth of the in-force block and higher severity and frequency of new claims in the current year.

Our long-term care insurance business had higher paid claims of $79 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 principally from aging and growth of the in-force block, higher severity and frequency on new claims and higher benefits paid on existing claims in the current year.

U.S. mortgage insurance

As of September 30, 2014, the liability for policy and contract claims, before reinsurance, of our U.S. Mortgage Insurance segment decreased to $1,239 million from $1,482 million as of December 31, 2013 predominantly from a decline in new delinquencies, as well as lower reserves on new delinquencies, partially offset by an aggregate increase in our claim reserves in the current year in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities.

Our U.S. Mortgage Insurance segment also experienced lower incurred losses of $38 million compared to the nine months ended September 30, 2013 mostly related a decline in new delinquencies, as well as lower reserves on new delinquencies. These decreases were partially offset by an aggregate increase in our claim reserves in the current year of $53 million in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities.

Paid claims decreased $207 million in our U.S. Mortgage Insurance segment primarily related to lower delinquencies and the overall improvement in the net cures and aging of existing delinquencies, partially offset by lower loss mitigation savings in the current year.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Life insurance

As of September 30, 2014, the liability for policy and contract claims, before reinsurance, of our life insurance business increased to $226 million from $188 million as of December 31, 2013 primarily from unfavorable mortality due to higher severity and frequency of claims in the current year. Our life insurance business also experienced higher incurred losses and paid claims, which increased $171 million and $145 million, respectively, compared to the nine months ended September 30, 2013 largely from unfavorable mortality in the current year.

International mortgage insurance

As of September 30, 2014, the liability for policy and contract claims, before reinsurance, of our International Mortgage Insurance segment decreased to $355 million from $378 million as of December 31, 2013 largely from lower incurred losses of $102 million compared to the nine months ended September 30, 2013. This decrease was mainly driven by improvements in Canada and Australia primarily as a result of the favorable aging of delinquencies and lower severity of claims in the current year.

During the nine months ended September 30, 2014, our International Mortgage Insurance segment paid lower claims of $137 million compared to the nine months ended September 30, 2013 principally related to lower delinquencies in Canada and Australia and lower severity of settled claims in Australia in the current year.

Prior year incurred reserve development

In 2014, we increased claim reserves related to insured events for prior years by $629 million as a result of changes in estimates related to prior year insured events and the development of information not previously known when establishing the reserves in prior periods.

Of this amount, we increased prior year claim reserves related to our long-term care insurance business by $653 million from $4,999 million as of December 31, 2013. The increase was largely related to higher claim reserves based on the completion of a comprehensive review of our long-term care insurance claim reserves conducted over the past few months and an unfavorable correction as discussed above.

We increased prior year claim reserves related to our U.S. Mortgage Insurance segment by $23 million from $1,482 million as of December 31, 2013 primarily related to $53 million of charges in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities, partially offset by a decline in new delinquencies and lower reserves on new delinquencies in the current year.

These increases in prior year claim reserves were partially offset by reduced prior year claim reserves in our International Mortgage Insurance segment which decreased $55 million from $378 million as of December 31, 2013 largely related to favorable aging of delinquencies in the current year.

For our other businesses, the remaining unfavorable development of $8 million during the nine months ended September 30, 2014 related to refinements to our estimates as part of our reserving process on both reported and unreported insured events occurring in the prior year that were not significant.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(13) Noncontrolling Interests

On May 15, 2014, Genworth Mortgage Insurance Australia Limited (Genworth Australia), a holding company for Genworth s Australian mortgage insurance business, priced its initial public offering of 220,000,000 of its ordinary shares at an initial public offering price of AUD$2.65 per ordinary share. The offering closed on May 21, 2014. Following completion of the offering, Genworth Financial beneficially owns 66.2% of the ordinary shares of Genworth Australia.

The net proceeds of the offering were used by Genworth Australia to repay a portion of certain intercompany funding arrangements with our subsidiaries and those funds were then distributed to Genworth Holdings. The gross proceeds of the offering (before payment of fees and expenses) were approximately $541 million. Fees and expenses in connection with the offering were approximately $27 million, including approximately $3 million paid in 2013.

Consistent with applicable accounting guidance, changes in noncontrolling interests that do not result in a change of control are accounted for as equity transactions. When there are changes in noncontrolling interests of a subsidiary that do not result in a change of control, any difference between carrying value and fair value related to the change in ownership is recorded as an adjustment to stockholders equity. A summary of these changes in ownership interests and the effect on stockholders equity for the periods presented was as follows for the periods presented:

(Amounts in millions)	Three months ended September 30, 2014	Nine months ended September 30, 2014
Net loss available to Genworth Financial, Inc. s common stockholders	$ (844)	$ (484)
Transfers to the noncontrolling interests:		
Decrease in Genworth Financial, Inc. s additional paid-in capital for initial sale of Genworth Australia to noncontrolling interests		(145)
Net transfers to noncontrolling interests		(145)
Change from net loss available to Genworth Financial, Inc. s common stockholders and transfers to noncontrolling interests	$ (844)	$ (629)

(14) Goodwill

During the third quarter of 2014, we completed our annual goodwill impairment analysis as of July 1, 2014. As a result of this analysis, we determined fair value was lower than book value for our life and long-term care insurance reporting units. If fair value is lower than book value, the reporting unit s fair value is allocated to assets and liabilities as if the reporting unit had been acquired in a business combination with the amount of goodwill being established representing the implied goodwill amount that is recoverable. If this implied goodwill exceeds the reporting unit s recorded goodwill balance, goodwill is deemed recoverable.

During the third quarter of 2014, in connection with our strategic planning process and in light of new leadership within our U.S. Life Insurance Division, we revisited our prior strategy of focusing on term life insurance, given the capital-intensive nature of the product and our revised capital plan. We are in the process of transitioning to higher return permanent products, including universal life insurance, indexed universal life insurance and linked-benefit products, and expect sales growth to occur over time. Given this transition, our annual sales projections included in the determination of fair value for our life insurance reporting unit were significantly lower than sales levels expected in prior year s goodwill testing analysis. This shift in new business mix to a relatively lower volume of sales that we expect to increase over time resulted in a decrease in new business value that caused the fair value of the life insurance reporting unit to be below its book value with the amount of implied

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

goodwill being lower than the recorded goodwill balance. Based on the fair value of projected new business for our life insurance reporting unit, we recorded a goodwill impairment of $350 million during the third quarter of 2014, with the remaining goodwill balance of $145 million deemed recoverable based on our determination of implied goodwill.

For the first half of 2014, overall market sales for the long-term care insurance industry declined approximately 30% as compared to the same period last year. During the third quarter of 2014, we introduced a new long-term care insurance product with higher premiums and lower maximum benefits, and anticipate that it will take time for this new product to gain momentum in our distribution channels. Given these trends, our annual sales projections included in our determination of fair value for our long-term care insurance reporting unit were lower than the prior year s goodwill testing analysis. In addition, our projection of new business includes a higher expected use of reinsurance and a change related to expected claims costs that resulted in a decrease in value compared to the prior year s goodwill testing valuation. The impact of these assumptions on our sales projections caused the fair value of our long-term care insurance reporting unit to be below its book value with the amount of implied goodwill being lower than the recorded goodwill balance. Based on the fair value of projected new business for our long-term care insurance reporting unit, we recorded a goodwill impairment of $200 million during the third quarter of 2014, with the remaining goodwill balance of $154 million deemed recoverable based on our determination of implied goodwill.

(15) Condensed Consolidating Financial Information

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior notes and the holders of the senior notes, on an unsecured unsubordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, each outstanding series of senior notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the senior notes indenture in respect of such senior notes. Genworth Financial also provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding subordinated notes and the holders of the subordinated notes, on an unsecured subordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, the outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the subordinated notes indenture in respect of the subordinated notes. Genworth Holdings is a direct, 100% owned subsidiary of Genworth Financial.

The following condensed consolidating financial information of Genworth Financial and its direct and indirect subsidiaries have been prepared pursuant to rules regarding the preparation of consolidating financial information of Regulation S-X. The condensed consolidating financial information has been prepared as if the guarantee had been in place during the periods presented herein.

The condensed consolidating financial information presents the condensed consolidating balance sheet information as of September 30, 2014 and December 31, 2013, the condensed consolidating income statement information and the condensed consolidating comprehensive income statement information for the three and nine months ended September 30, 2014 and 2013 and the condensed consolidating cash flow statement information for the nine months

ended September 30, 2014 and 2013.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating balance sheet information as of September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 151	$ 62,366	$ (200)	$ 62,317
Equity securities available-for-sale, at fair value			313		313
Commercial mortgage loans			6,077		6,077
Restricted commercial mortgage loans related to securitization entities			209		209
Policy loans			1,512		1,512
Other invested assets		14	2,268	(1)	2,281
Restricted other invested assets related to securitization entities, at fair value			404		404
Investments in subsidiaries	15,156	15,273		(30,429)	
Total investments	15,156	15,438	73,149	(30,630)	73,113
Cash and cash equivalents		988	2,489		3,477
Accrued investment income			719		719
Deferred acquisition costs			5,085		5,085
Intangible assets			300		300
Goodwill			316		316
Reinsurance recoverable			17,374		17,374
Other assets		194	518	(2)	710
Intercompany notes receivable		263	384	(647)	
Separate account assets			9,420		9,420
Total assets	$ 15,156	$ 16,883	$ 109,754	$ (31,279)	$ 110,514
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 34,697	$	$ 34,697
Policyholder account balances			25,827		25,827
Liability for policy and contract claims			7,987		7,987

Unearned premiums			4,085		4,085
Other liabilities	(10)	276	3,341	(2)	3,605
Intercompany notes payable	1	584	262	(847)	
Borrowings related to securitization entities			225		225
Non-recourse funding obligations			2,010		2,010
Long-term borrowings		4,151	511		4,662
Deferred tax liability		(950)	1,825		875
Separate account liabilities			9,420		9,420
Total liabilities	(9)	4,061	90,190	(849)	93,393
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	11,991	9,162	17,079	(26,241)	11,991
Accumulated other comprehensive income (loss)	3,934	3,913	3,930	(7,843)	3,934
Retained earnings	1,939	(253)	(3,406)	3,659	1,939
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,165	12,822	17,603	(30,425)	15,165
Noncontrolling interests			1,961	(5)	1,956
Total stockholders equity	15,165	12,822	19,564	(30,430)	17,121
Total liabilities and stockholders equity	$ 15,156	$ 16,883	$ 109,754	$ (31,279)	$ 110,514

72

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating balance sheet information as of December 31, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 150	$ 58,679	$ (200)	$ 58,629
Equity securities available-for-sale, at fair value			341		341
Commercial mortgage loans			5,899		5,899
Restricted commercial mortgage loans related to securitization entities			233		233
Policy loans			1,434		1,434
Other invested assets		91	1,595		1,686
Restricted other invested assets related to securitization entities, at fair value			391		391
Investments in subsidiaries	14,358	14,929		(29,287)	
Total investments	14,358	15,170	68,572	(29,487)	68,613
Cash and cash equivalents		1,219	2,995		4,214
Accrued investment income			682	(4)	678
Deferred acquisition costs			5,278		5,278
Intangible assets			399		399
Goodwill			867		867
Reinsurance recoverable			17,219		17,219
Other assets	(2)	276	367	(2)	639
Intercompany notes receivable	8	248	393	(649)	
Separate account assets			10,138		10,138
Total assets	$ 14,364	$ 16,913	$ 106,910	$ (30,142)	$ 108,045
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 33,705	$	$ 33,705
Policyholder account balances			25,528		25,528
Liability for policy and contract claims			7,204		7,204

Unearned premiums			4,107		4,107
Other liabilities	(3)	365	3,739	(5)	4,096
Intercompany notes payable		601	248	(849)	
Borrowings related to securitization entities			242		242
Non-recourse funding obligations			2,038		2,038
Long-term borrowings		4,636	525		5,161
Deferred tax liability	(26)	(796)	1,028		206
Separate account liabilities			10,138		10,138
Total liabilities	(29)	4,806	88,502	(854)	92,425
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	12,127	9,297	17,215	(26,512)	12,127
Accumulated other comprehensive income (loss)	2,542	2,507	2,512	(5,019)	2,542
Retained earnings	2,423	303	(2,551)	2,248	2,423
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	14,393	12,107	17,176	(29,283)	14,393
Noncontrolling interests			1,232	(5)	1,227
Total stockholders equity	14,393	12,107	18,408	(29,288)	15,620
Total liabilities and stockholders equity	$ 14,364	$ 16,913	$ 106,910	$ (30,142)	$ 108,045

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the three months ended September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,395	$	$ 1,395
Net investment income	(1)		810	(4)	805
Net investment gains (losses)		9	(36)		(27)
Insurance and investment product fees and other			231		231
Total revenues	(1)	9	2,400	(4)	2,404
Benefits and expenses:					
Benefits and other changes in policy reserves			1,986		1,986
Interest credited			185		185
Acquisition and operating expenses, net of deferrals	5		393		398
Amortization of deferred acquisition costs and intangibles			143		143
Goodwill impairment			550		550
Interest expense		77	41	(4)	114
Total benefits and expenses	5	77	3,298	(4)	3,376
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(6)	(68)	(898)		(972)
Provision (benefit) for income taxes	8	(16)	(177)		(185)
Equity in income (loss) of subsidiaries	(830)	(785)		1,615	
Income (loss) from continuing operations	(844)	(837)	(721)	1,615	(787)
Income from discontinued operations, net of taxes					
Net income (loss)	(844)	(837)	(721)	1,615	(787)

Less: net income attributable to noncontrolling interests			57		57
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (844)	$ (837)	$ (778)	$ 1,615	$ (844)

74

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the three months ended September 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,291	$	$ 1,291
Net investment income			804	(3)	801
Net investment gains (losses)		(4)	(19)		(23)
Insurance and investment product fees and other			249	(1)	248
Total revenues		(4)	2,325	(4)	2,317
Benefits and expenses:					
Benefits and other changes in policy reserves			1,169		1,169
Interest credited			184		184
Acquisition and operating expenses, net of deferrals	8	31	368		407
Amortization of deferred acquisition costs and intangibles			182		182
Interest expense		82	46	(4)	124
Total benefits and expenses	8	113	1,949	(4)	2,066
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(8)	(117)	376		251
Provision (benefit) for income taxes	44	(39)	100		105
Equity in income of subsidiaries	160	251		(411)	
Income from continuing operations	108	173	276	(411)	146
Income (loss) from discontinued operations, net of taxes		(15)	17		2
Net income	108	158	293	(411)	148
			40		40

Less: net income attributable to noncontrolling interests					
Net income available to Genworth Financial, Inc. s common stockholders	$ 108	$ 158	$ 253	$ (411)	$ 108

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the nine months ended September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 4,045	$	$ 4,045
Net investment income	(1)		2,435	(11)	2,423
Net investment gains (losses)			(10)		(10)
Insurance and investment product fees and other		(3)	687	(1)	683
Total revenues	(1)	(3)	7,157	(12)	7,141
Benefits and expenses:					
Benefits and other changes in policy reserves			4,436		4,436
Interest credited			552		552
Acquisition and operating expenses, net of deferrals	15		1,165		1,180
Amortization of deferred acquisition costs and intangibles			415		415
Goodwill impairment			550		550
Interest expense		244	129	(12)	361
Total benefits and expenses	15	244	7,247	(12)	7,494
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(16)	(247)	(90)		(353)
Provision (benefit) for income taxes	13	(80)	58	(4)	(13)
Equity in income (loss) of subsidiaries	(455)	(389)		844	
Income (loss) from continuing operations	(484)	(556)	(148)	848	(340)
Income from discontinued operations, net of taxes					
Net income (loss)	(484)	(556)	(148)	848	(340)

Less: net income attributable to noncontrolling interests			144		144
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (484)	$ (556)	$ (292)	$ 848	$ (484)

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the nine months ended September 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 3,838	$	$ 3,838
Net investment income	(1)	1	2,446	(10)	2,436
Net investment gains (losses)		(1)	(62)		(63)
Insurance and investment product fees and other			784	(4)	780
Total revenues	(1)		7,006	(14)	6,991
Benefits and expenses:					
Benefits and other changes in policy reserves			3,639		3,639
Interest credited			552		552
Acquisition and operating expenses, net of deferrals	18	32	1,203		1,253
Amortization of deferred acquisition costs and intangibles			441		441
Interest expense		241	144	(14)	371
Total benefits and expenses	18	273	5,979	(14)	6,256
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(19)	(273)	1,027		735
Provision (benefit) for income taxes	39	(92)	307		254
Equity in income of subsidiaries	410	567		(977)	
Income from continuing operations	352	386	720	(977)	481
Income (loss) from discontinued operations, net of taxes		(29)	17		(12)
Net income	352	357	737	(977)	469
			117		117

Less: net income attributable to noncontrolling interests										
Net income available to Genworth Financial, Inc. s common stockholders	$	352	$	357	$	620	$	(977)	$	352

77

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the three months ended September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (844)	$ (837)	$ (721)	$ 1,615	$ (787)
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(62)	(60)	(67)	121	(68)
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	2	1	(3)	1
Derivatives qualifying as hedges	101	101	105	(206)	101
Foreign currency translation and other adjustments	(267)	(229)	(379)	496	(379)
Total other comprehensive income (loss)	(227)	(186)	(340)	408	(345)
Total comprehensive income (loss)	(1,071)	(1,023)	(1,061)	2,023	(1,132)
Less: comprehensive income attributable to noncontrolling interests			(61)		(61)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,071)	$ (1,023)	$ (1,000)	$ 2,023	$ (1,071)

The following table presents the condensed consolidating comprehensive income statement information for the three months ended September 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 108	$ 158	$ 293	$ (411)	$ 148
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(190)	(183)	(195)	377	(191)
	5	5	5	(10)	5

Net unrealized gains (losses) on other-than-temporarily impaired securities									
Derivatives qualifying as hedges		(139)		(139)		(144)		283		(139)
Foreign currency translation and other adjustments		121		102		143		(222)		144
Total other comprehensive income (loss)		(203)		(215)		(191)		428		(181)
Total comprehensive income (loss)		(95)		(57)		102		17		(33)
Less: comprehensive income attributable to noncontrolling interests						62				62
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$	(95)	$	(57)	$	40	$	17	$	(95)

78

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (484)	$ (556)	$ (148)	$ 848	$ (340)
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,155	1,129	1,171	(2,284)	1,171
Net unrealized gains (losses) on other-than-temporarily impaired securities	8	9	8	(17)	8
Derivatives qualifying as hedges	434	434	460	(894)	434
Foreign currency translation and other adjustments	(148)	(109)	(252)	257	(252)
Total other comprehensive income (loss)	1,449	1,463	1,387	(2,938)	1,361
Total comprehensive income (loss)	965	907	1,239	(2,090)	1,021
Less: comprehensive income attributable to noncontrolling interests			56		56
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 965	$ 907	$ 1,183	$ (2,090)	$ 965

The following table presents the condensed consolidating comprehensive income statement information for the nine months ended September 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 352	$ 357	$ 737	$ (977)	$ 469
Other comprehensive income (loss):					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,586)	(1,546)	(1,624)	3,132	(1,624)
Net unrealized gains (losses) on other-than-temporarily impaired securities	57	57	57	(114)	57

Derivatives qualifying as hedges	(467)	(467)	(484)	951	(467)
Foreign currency translation and other adjustments	(267)	(256)	(313)	523	(313)
Total other comprehensive income (loss)	(2,263)	(2,212)	(2,364)	4,492	(2,347)
Total comprehensive income (loss)	(1,911)	(1,855)	(1,627)	3,515	(1,878)
Less: comprehensive income attributable to noncontrolling interests			33		33
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,911)	$ (1,855)	$ (1,660)	$ 3,515	$ (1,911)

79

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the nine months ended September 30, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (484)	$ (556)	$ (148)	$ 848	$ (340)
Adjustments to reconcile net income (loss) to net cash from operating activities:					
Equity in (income) loss from subsidiaries	455	389		(844)	
Dividends from subsidiaries		563	(563)		
Amortization of fixed maturity discounts and premiums and limited partnerships			(87)		(87)
Net investment losses (gains)			10		10
Charges assessed to policyholders			(580)		(580)
Acquisition costs deferred			(356)		(356)
Amortization of deferred acquisition costs and intangibles			415		415
Goodwill impairment			550		550
Deferred income taxes	25	(137)	(78)	(4)	(194)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments			110		110
Stock-based compensation expense	15		6		21
Change in certain assets and liabilities:					
Accrued investment income and other assets	(2)	44	(210)	(4)	(172)
Insurance reserves			1,769		1,769
Current tax liabilities	(16)	(37)	(134)		(187)
Other liabilities and other policy-related balances	12	51	115	3	181
Net cash from operating activities	5	317	819	(1)	1,140
Cash flows from investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			3,775		3,775
Commercial mortgage loans			528		528

Restricted commercial mortgage loans related to securitization entities			24		24
Proceeds from sales of investments:					
Fixed maturity and equity securities			1,745		1,745
Purchases and originations of investments:					
Fixed maturity and equity securities			(7,464)		(7,464)
Commercial mortgage loans			(709)		(709)
Other invested assets, net			86	1	87
Policy loans, net			11		11
Intercompany notes receivable	8	(15)	9	(2)	
Capital contributions to subsidiaries	(12)		12		
Net cash from investing activities	(4)	(15)	(1,983)	(1)	(2,003)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			2,201		2,201
Withdrawals from universal life and investment contracts			(1,950)		(1,950)
Redemption and repurchase of non-recourse funding obligations			(28)		(28)
Proceeds from the issuance of long-term debt			144		144
Repayment and repurchase of long-term debt		(485)	(136)		(621)
Repayment of borrowings related to securitization entities			(24)		(24)
Proceeds from sale of subsidiary shares to noncontrolling interests			517		517
Dividends paid to noncontrolling interests			(46)		(46)
Proceeds from intercompany notes payable	1	(17)	14	2	
Other, net	(2)	(31)	(11)		(44)
Net cash from financing activities	(1)	(533)	681	2	149
Effect of exchange rate changes on cash and cash equivalents			(23)		(23)
Net change in cash and cash equivalents		(231)	(506)		(737)
Cash and cash equivalents at beginning of period		1,219	2,995		4,214
Cash and cash equivalents at end of period	$	$ 988	$ 2,489	$	$ 3,477

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the nine months ended September 30, 2013:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 352	$ 357	$ 737	$ (977)	$ 469
Less loss from discontinued operations, net of taxes		29	(17)		12
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(410)	(567)		977	
Dividends from subsidiaries	135	230	(365)		
Amortization of fixed maturity discounts and premiums and limited partnerships		(1)	(63)		(64)
Net investment losses (gains)		1	62		63
Charges assessed to policyholders			(612)		(612)
Acquisition costs deferred			(332)		(332)
Amortization of deferred acquisition costs and intangibles			441		441
Deferred income taxes	41	(70)	(91)		(120)
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments			(15)		(15)
Stock-based compensation expense	18		9		27
Change in certain assets and liabilities:					
Accrued investment income and other assets	4	61	(127)	(4)	(66)
Insurance reserves			1,679		1,679
Current tax liabilities	(2)	(8)	252		242
Other liabilities and other policy-related balances	4	80	(787)	4	(699)
Cash from operating activities discontinued operations			68		68
Net cash from operating activities	142	112	839		1,093
Cash flows from investing activities:					
Proceeds from maturities and repayments of investments:					

Fixed maturity securities			4,046		4,046
Commercial mortgage loans			686		686
Restricted commercial mortgage loans related to securitization entities			51		51
Proceeds from sales of investments:					
Fixed maturity and equity securities			3,056		3,056
Purchases and originations of investments:					
Fixed maturity and equity securities			(7,872)		(7,872)
Commercial mortgage loans			(667)		(667)
Other invested assets, net			80		80
Policy loans, net			(7)		(7)
Intercompany notes receivable	(11)	6	96	(91)	
Capital contributions to subsidiaries	(131)	(22)	153		
Proceeds from sale of a subsidiary, net of cash transferred		345	25		370
Cash from investing activities discontinued operations		(30)			(30)
Net cash from investing activities	(142)	299	(353)	(91)	(287)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			1,979		1,979
Withdrawals from universal life and investment contracts			(2,613)		(2,613)
Redemption and repurchase of non-recourse funding obligations			(20)		(20)
Proceeds from the issuance of long-term debt		397			397
Repayment and repurchase of long-term debt		(365)			(365)
Repayment of borrowings related to securitization entities			(51)		(51)
Repurchase of subsidiary shares			(43)		(43)
Dividends paid to noncontrolling interests			(39)		(39)
Proceeds from intercompany notes payable		(86)	(5)	91	
Other, net		(36)	(17)		(53)
Cash from financing activities discontinued operations			(3)		(3)
Net cash from financing activities		(90)	(812)	91	(811)
Effect of exchange rate changes on cash and cash equivalents			(94)		(94)
Net change in cash and cash equivalents		321	(420)		(99)
Cash and cash equivalents at beginning of period		843	2,810		3,653
Cash and cash equivalents at end of period		1,164	2,390		3,554
Less cash and cash equivalents of discontinued operations at end of period					
	$	$ 1,164	$ 2,390	$	$ 3,554

Cash and cash equivalents of continuing operations at end of period

81

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Our insurance company subsidiaries are restricted by state and foreign laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders and contractholders, not stockholders. Any dividends in excess of limits are deemed extraordinary and require approval. Based on estimated statutory results as of December 31, 2013, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $1.0 billion to us in 2014 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $1.0 billion is unrestricted, we do not expect our insurance subsidiaries to pay dividends to us in 2014 at this level as they retain capital for growth and to meet capital requirements and desired thresholds. As of September 30, 2014, Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $14.2 billion and $14.3 billion, respectively.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included herein and with our 2013 Annual Report on Form 10-K.

Cautionary note regarding forward-looking statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management s current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors and risks, including, but not limited to, the following:

Risks relating to our businesses, including downturns and volatility in global economies and equity and credit markets; downgrades or potential downgrades, being placed on negative outlook or being put on review for potential downgrade of our financial strength or credit ratings; interest rate fluctuations and levels; adverse capital and credit market conditions; the valuation of fixed maturity, equity and trading securities; defaults or other events impacting the value of our fixed maturity securities portfolio; defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance; the availability, affordability and adequacy of reinsurance to meet our needs; defaults by counterparties to reinsurance arrangements or derivative instruments; an adverse change in risk-based capital and other regulatory requirements; insufficiency of reserves and required increases to reserve liabilities (including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with our active life margin review in the fourth quarter of 2014); legal and regulatory constraints on dividend distributions by our subsidiaries; competition, including from government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; loss of key distribution partners; regulatory restrictions on our operations and changes in applicable laws and regulations; legal or regulatory investigations or actions; the failure of or any compromise of the security of our computer systems and confidential information contained therein; the occurrence of natural or man-made disasters or a pandemic; the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act; ineffective or inadequate risk management program; changes in accounting and reporting standards; goodwill impairments; impairments of or valuation allowances against our deferred tax assets; significant deviations from our assumptions in our insurance policies and annuity contracts; accelerated amortization of deferred acquisition costs and present value of future profits (including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with our active life margin review in the fourth quarter of 2014); our inability (including as a result of our failure to obtain any necessary regulatory approvals) to increase premiums on in-force and future long-term care insurance products (including any current rate actions and any future rate actions, such as rate actions resulting from any changes we may make to our assumptions, methodologies or otherwise in connection with our active life margin review in the fourth quarter of 2014) in a timely manner and sufficient amount; our inability to reflect future premium increases and other management actions in our active life margin calculation (including in connection with our active life margin review in the fourth quarter of 2014); our inability to successfully implement the management actions we have and are developing to offset adverse

impacts resulting from our claim reserves review completed in the third quarter of 2014, our active life margin review being conducted in the fourth quarter of 2014 or otherwise; the failure of demand for life insurance, long-term care insurance and fixed annuity products to increase; the capital needs in our U.S. life insurance and U.S. mortgage insurance businesses being higher than we anticipate and our inability to increase our capital on the anticipated timetable and

terms or at all, and with the anticipated benefits; medical advances, such as genetic research and diagnostic imaging, and related legislation; ability to continue to implement actions to mitigate the impact of statutory reserve requirements; political and economic instability or changes in government policies; fluctuations in foreign currency exchange rates and international securities markets; the significant portion of our international mortgage insurance risk in-force with high loan-to-value ratios; increases in U.S. mortgage insurance default rates; failure to meet, or have waived to the extent needed, our U.S. mortgage insurance subsidiaries minimum statutory capital requirements and hazardous financial condition standards; the influence of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and a small number of large mortgage lenders and investors and changes to the role or structure of Fannie Mae and Freddie Mac; inability to meet the proposed private mortgage insurance eligibility requirements (PMIERs) guidelines on the contemplated timetable with the contemplated funding (including (a) if reinsurance or similar transactions are not available due to adverse market conditions, costs and other terms of such transactions, the GSEs approach to and capital treatment for such transactions and the performance of our U.S. mortgage insurance business, among other factors, and (b) the capital required to meet the PMIERs guidelines and operate our business is higher than anticipated due to, among other things, (i) the PMIERs guidelines adopted differing materially from the current draft; (ii) the way the guidelines are applied and interpreted by the GSEs and the Federal Housing Finance Agency (FHFA); (iii) the future performance of the U.S. housing market; (iv) our generating and having expected U.S. mortgage insurance business earnings, available assets and risk-based required assets (including as they relate to the value of the shares of our Canadian mortgage insurance subsidiary that are owned by our U.S. mortgage insurance business as a result of share price and foreign exchange movements or otherwise), reducing risk in-force and reducing delinquencies as anticipated, and writing anticipated amounts and types of new U.S. mortgage insurance business; and (v) our projected overall financial performance, capital and liquidity levels being as anticipated); inability to realize the benefits of our rescissions and curtailments as anticipated; the extent to which loan modifications and other similar programs may provide benefits to us; deterioration in economic conditions or a decline in home prices in the United States; problems associated with foreclosure process defects in the United States that may defer claim payments; decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations in the United States; increases in the use of alternatives to private mortgage insurance in the United States and reductions by lenders in the level of coverage they select; the impact of the use of reinsurance with reinsurance companies affiliated with our U.S. mortgage lending customers; and potential liabilities in connection with our U.S. contract underwriting services;

Other risks, including the risk that the anticipated benefits of the announced expense reduction are not realized and we may lose key personnel related to actions like this as well as general uncertainty in the timing of our turnaround; the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

Risks relating to our common stock, including the suspension of dividends and stock price fluctuations.

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

84

Table of Contents

Overview

Our business

We are a leading financial services company dedicated to providing insurance, investment and financial solutions to our customers, with a presence in more than 25 countries. We operate through three divisions: U.S. Life Insurance, Global Mortgage Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The U.S. Life Insurance Division includes the U.S. Life Insurance segment. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. 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. 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 Genworth Holdings, Inc. (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.

Business trends and conditions

Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

General conditions and trends affecting our businesses

Financial and economic environment. The stability of both the financial markets and global economies in which we operate impacts the sales, revenue growth and profitability trends of our businesses. While equity and

credit markets generally improved during 2013, credit market volatility continued into 2014 and credit spreads generally widened for most fixed income asset classes in the third quarter of 2014, reversing the trend from the first half of 2014. The U.S. and several international financial markets have been impacted in 2014 by concerns regarding global economies and the rate and strength of recovery, particularly given recent political and geographical events in Eastern Europe and the Middle East.

While the U.S. housing market continues to recover with home prices rising in a number of regions and cities, ongoing volatility in the U.S. economy continues to impact the rate of recovery in 2014. Unemployment and underemployment levels in the United States remained elevated in 2014; however, the September 2014 unemployment rate declined slightly from the June and March 2014 and December 2013 unemployment rates. We expect unemployment and underemployment levels in the United States to remain elevated relative to those levels prevailing before 2009 and gradually decrease over time. In Canada, stable economic conditions have persisted with housing affordability benefiting from low interest rates and employment growth and average home prices increased modestly during 2014. The unemployment rate in Canada decreased slightly during the third quarter of 2014 and remains near its lowest level since December 2008. In Australia, the overall housing market generally improved as modest economic growth and low interest rates persisted, coupled with average home prices increasing across most regions during the first three quarters of 2014. The unemployment rate in Australia increased slightly during 2014, remaining close to its highest level in three years and we expect to increase modestly from current levels in the near to mid-term. The Chinese economy had experienced significant growth over the past decade. This growth slowed during 2013 and into 2014 and the new Chinese administration began to implement economic and credit market reforms. Gross domestic product growth in China in 2014 was significantly lower than growth over the last decade with the slowest growth in the third quarter of 2014 in the past five years. Given the relative size of the Chinese economy, the impact of a significant change in the pace of economic expansion in China could impact global economies, partly as a result of lower commodity imports, particularly those from the Asia Pacific region, including Australia. Europe remained a challenging region with slow growth or a declining economic environment with lower lending activity and reduced consumer spending, particularly in Greece, Spain, Portugal, Ireland and Italy, in part as a result of actual or anticipated austerity measures, but certain areas within Europe have shown a modest level of improvement during the second half of 2013 and into the first three quarters of 2014. Additionally, Germany s economy could be impacted by the ongoing conflict in the Ukraine and sanctions imposed on Russia, which could negatively impact other European markets. See Trends and conditions affecting our segments below for a discussion regarding the impacts the financial markets and global economies have on our businesses.

Slow or varied levels of economic growth, coupled with uncertain financial markets and economic outlooks, changes in government policy, regulatory reforms and other changes in market conditions, influenced, and we believe will continue to influence, investment and spending decisions by consumers and businesses as they adjust their consumption, debt, capital and risk profiles in response to these conditions. These trends change as investor confidence in the markets and the outlook for some consumers and businesses shift. As a result, our sales, revenues and profitability trends of certain insurance and investment products have been and could be further impacted negatively or positively going forward. In particular, factors such as government spending, monetary policies, the volatility and strength of the capital markets, anticipated tax policy changes and the impact of global financial regulation reform will continue to affect economic and business outlooks and consumer behaviors moving forward.

The U.S. and international governments, Federal Reserve, other central banks and other legislative and regulatory bodies have taken certain actions to support the economy and capital markets, influence interest rates, influence housing markets and mortgage servicing and provide liquidity to promote economic growth. These include various mortgage restructuring programs implemented or under consideration by the GSEs, lenders, servicers and the U.S. government. Outside of the United States, various governments and central banks have taken and continue to take actions to stimulate economies, stabilize financial systems and improve market liquidity. In aggregate, these actions

had a positive effect in the short term on these countries and their markets; however, there can be no assurance as to the future level of impact these types of actions may have on the

economic and financial markets, including levels of volatility. A delayed economic recovery period, a U.S. or global recession or regional or global financial crisis could materially and adversely affect our business, financial condition and results of operations.

We manage our product offerings, liquidity, capital, investment and asset-liability management strategies to mitigate risk especially during periods of strained economic and financial market conditions. In addition, we continue to review our product and distribution management strategies to align with our strengths, profitability targets and risk tolerance.

Credit and investment markets. The Federal Reserve continued to reduce its asset purchases during the third quarter of 2014 to $15.0 billion per month in September through its Long-Term Securities Asset Purchases Program. With the Federal Reserve withdrawing stimulus and signaling the normalization of monetary policy, U.S. interest rates fluctuated and the yield curve flattened while interest rates outside of the United States generally continued to decline. The decline outside of the United States was driven primarily by global economic growth concerns, weakening economic performance in Europe and further easing measures initiated by the European Central Bank. Minutes from the September Federal Open Market Committee meeting revealed that Federal Reserve officials have become more concerned that weaker than expected growth in Europe, China and Japan coupled with the rising U.S. dollar could dampen domestic growth prospects. These concerns, combined with downward pressure on commodity prices and restrained wage growth, could contribute to the Federal Reserve further deferring the normalization of monetary policy. In late October 2014, the Federal Reserve announced the end of its asset purchase program.

Reversing the trend from the first half of 2014, credit spreads generally widened for most fixed income asset classes in the third quarter of 2014 from both concerns about potential rising U.S. interest rates that drove outflows in several asset sectors, notably U.S. high yield securities, and new issue supply in investment grade corporate securities, asset-backed securities and collateralized loan obligations that outpaced demand.

We recorded net other-than-temporary impairments of $9 million during the nine months ended September 30, 2014 compared to $22 million during the nine months ended September 30, 2013. We believe low impairments across all asset classes are attributed to prevailing stable macroeconomic conditions and good credit risk management. Declines in interest rates and credit spreads have increased the value of our investments and derivatives, resulting in increases in net unrealized investment gains on securities of $1,179 million and derivatives qualifying as hedges of $434 million in other comprehensive income (loss) for the nine months ended September 30, 2014. Economic conditions will continue to impact the valuation of our investment portfolios and the amount of other-than-temporary impairments.

Looking ahead, while we view the current credit environment as stable and expect corporate defaults to remain relatively low, company-specific spread widening could occur in part from an environment in which companies have strong incentives to increase debt to improve shareholder returns. We believe the current credit environment provides us with opportunities to invest across a variety of asset classes, but we anticipate our returns will continue to be pressured primarily because of low interest rates. See Investments and Derivative Instruments for additional information on our investment portfolio.

Trends and conditions affecting our segments

U.S. Life Insurance

Life insurance. Results of our life insurance business are impacted by sales, competitor actions, mortality, persistency, investment yields, expenses, reinsurance and statutory reserve requirements. Additionally, sales of our products and persistency of our insurance in-force are dependent on competitive product features and pricing, underwriting,

distribution and customer service. Shifts in consumer demand, competitors actions, relative pricing, return on capital or reinsurance decisions and other factors, such as regulatory matters affecting life insurance policy reserve levels, can also affect our sales levels.

In 2013, we experienced favorable mortality results in our universal life, term universal life and term life insurance products as compared to priced for mortality assumptions. In the third quarter of 2014, we experienced unfavorable mortality results for our universal life and term life insurance products compared to the second quarter of 2014. Mortality levels may deviate each period from historical trends. As our 15-year term life insurance policies written in 1999 and 2000 approach their post-level guaranteed premium rate period, we have experienced lower persistency compared to pricing. Due to the relatively small number of policies currently approaching their post-level guaranteed premium rate period and the small difference between actual and priced for persistency, the impact on our financial statements has not been material. As more policies approach their post-level guaranteed premium rate period, we would expect amortization of deferred acquisition costs (DAC) to accelerate and reduce profitability in our term life insurance products if persistency is lower compared to pricing.

Life insurance sales increased 88% during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 largely attributable to the relatively low sales in 2013 mainly driven by slow growth of the reintroduced term life insurance products, which we began offering in the fourth quarter of 2012. Sales of our term life insurance products increased from competitive pricing and improved service platforms. The business is transitioning to a broader set of competitive permanent life product offerings, including universal life insurance, indexed universal life insurance and linked-benefits, and growth in sales on these products is expected to continue; however, the increase in permanent life product sales is not expected to exceed the moderation of sales in our term life insurance products in the near term. Given this planned shift in new business mix to a relatively lower volume of sales that we expect to increase over time, we recorded a goodwill impairment of $350 million during the third quarter of 2014.

Regulations XXX and AXXX require insurers to establish additional statutory reserves for term life insurance policies with long-term premium rate guarantees and for certain universal life insurance policies with secondary guarantees. This increases the capital required to write these products. We have committed funding sources for approximately 95% of our anticipated peak level reserves currently required under Regulations XXX and AXXX. The National Association of Insurance Commissioners (NAIC) adopted revised statutory reserving requirements for new and in-force secondary guarantee universal life business subject to Actuarial Guideline 38 (AG 38) provisions, which became effective December 31, 2012. These requirements reflected an agreement reached and developed by a NAIC Joint Working Group which included regulators from several states, including New York. The financial impact related to the revised statutory reserving requirements on our in-force reserves subject to the new guidance was not significant as of December 31, 2012. On September 11, 2013, the New York Department of Financial Services (the NYDFS) announced that it no longer supported the agreement reached by the NAIC Working Group and that it would require New York licensed companies, including our New York domiciled insurance subsidiary, to use an alternative interpretation of AG 38 for universal life insurance products with secondary guarantees. We have been in discussions with the NYDFS about its alternative interpretation and recorded $80 million of additional statutory reserves as of December 31, 2013. We continue to work with the NYDFS to determine future impacts. The NYDFS has not finalized a permanent update to the regulation. Depending on the final regulation, our New York domiciled insurance subsidiary s statutory reserves could increase significantly over time.

Uncertainties associated with our continued use of U.S.-domiciled captive life reinsurance subsidiaries are primarily related to potential regulatory changes. During 2012, the NAIC began a review of the insurance industry s use of captive life reinsurance subsidiaries, specifically those used to refinance Regulations XXX and AG 38, and is considering changes to its model regulations. We are currently unable to predict the ultimate outcome of the NAIC s review.

Although we do not believe it to be likely, and the conceptual framework currently being considered by the NAIC allows for their continued use, a potential outcome of the NAIC review is that the life insurance industry may find that continued use of captive life reinsurance subsidiaries is not cost effective. The expected effect of this framework

would depend on the specific changes to state regulations that are adopted as a result of the NAIC review, including whether current captive life reinsurance structures would be allowed to continue in existence or, if

not, the method and timing of their dissolution, as well as the cost and availability of alternative financing. At this time, given the uncertainty around these matters, we are unable to estimate the expected effects on our consolidated operations and financial position of any changes to the use of captive life reinsurance subsidiaries to finance statutory reserves subject to Regulations XXX, AXXX and AG 38 in the future. If we were to discontinue our use of captive life reinsurance subsidiaries to finance statutory reserves in response to regulatory changes on a prospective basis, the reasonably likely impact would be increased costs related to alternative financing, such as third-party reinsurance, and potential reductions in or discontinuance of new term life or universal life with secondary guarantees insurance sales, all of which would adversely impact our consolidated results of operations and financial condition. In addition, we cannot be certain that affordable alternative financing would be available.

Long-term care insurance. Results of our long-term care insurance business are influenced by sales, competitor actions, morbidity, mortality, persistency, investment yields, expenses, changes in regulations and reinsurance. Additionally, sales of our products are impacted by the relative competitiveness of our offerings based on product features, pricing and commission levels, including the impact of in-force rate actions on distribution and consumer demand. Changes in regulations or government programs, including long-term care insurance rate action legislation, could impact our long-term care insurance business positively or negatively.

During the second quarter of 2014, we experienced meaningful increases in adverse claims experience for our long-term care insurance products, resulting in significant deterioration in operating income. During the third quarter of 2014, we completed a comprehensive review of our long-term care insurance claim reserves conducted over the past few months. This review was commenced as a result of adverse claims experience during the second quarter of 2014 and in connection with our regular review of our claim reserve assumptions during the third quarter of each year. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. As a result of these changes, we increased our long-term care insurance claim reserves by $604 million, before reinsurance, during the third quarter of 2014. For a discussion of the actions we anticipate taking to address the increased capital needs of our U.S. life insurance business, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Regulated insurance subsidiaries. Due to the timing of the completion of the comprehensive review of our long-term care insurance claim reserves, and the complexity of the calculation of margins, we will review the applicability of any claim reserve assumptions and methodologies that changed during that review and incorporate them, as appropriate, as part of our margin review (also referred to as our active life margin review) that is expected to be completed during the fourth quarter of 2014.

The annual loss ratios of certain of our long-term care insurance policies have been increasing over the past several years. We experience volatility in our loss ratios on a quarterly basis, caused by variances in terminations, claim severity and changes in claim counts. Our rate actions may cause fluctuations in our loss ratios mainly when policyholders choose a reduced benefit option and reserves are adjusted during the period to reflect the policy modification. In addition, we periodically review our claim reserve assumptions and methodologies based upon developing experience, which may result in changes to claim reserves, causing volatility in our operating results and loss ratios. Our loss ratio in the third quarter of 2014 was 173% and was significantly impacted by the results of our review of and changes to claim reserve assumptions and methodologies, and resulting increase in claim reserves. The increase in the claim reserves as a result of the review increased the loss ratio for our long-term care insurance business by 103 percentage points for the third quarter of 2014.

Our long-term care insurance sales decreased 37% during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 and increased 12% in the third quarter of 2014 from the second quarter of 2014. Our lower sales year over year in part reflected the impact of the overall long-term care insurance industry sales

trends which were down in the first half of 2014 approximately 30% as compared to the same period last year as companies have left the market over time, have introduced price increases and product changes coupled with consumer concern tied to industry rate actions. In 2013, we took steps to improve our profit and risk profile with the introduction of a product that included gender distinct pricing for single applicants and blood and lab underwriting

requirements for all applicants. In addition, in the fourth quarter of 2013, we began filing for regulatory approval of a new product which gives consumers the flexibility to choose the right fit for their long-term care needs, combined with the simplicity of prepackaged benefits. As of September 30, 2014, this new product had been filed in 50 states, approved in 47 states and was launched in 42 states on July 21, 2014. The increased sales quarter over quarter were related to higher sales of our older generation long-term care insurance products, in advance of our new product launch. In support of this product, we are investing in key distribution and marketing initiatives to increase long-term care insurance sales. In addition, we are evaluating market trends and sales and investing in the development of products that we believe will help expand the long-term care insurance market over time and meet broader consumer needs. We expect sales to be lower in the fourth quarter of 2014 post the launch of the product in July 2014 but expect the actions we are taking to drive higher sales in 2015. Given the observed sales trends, and that our investment in key distribution and marketing initiatives are expected only to increase sales over time, and therefore, have not been included in our projections until we experience the benefits of those actions, we recorded a goodwill impairment of $200 million during the third quarter of 2014.

We also manage risk and limit capital allocated to our long-term care insurance business through utilization of internal and external reinsurance in the form of coinsurance. We have a portion of our long-term care insurance business reinsured internally by one of our Bermuda-domiciled captive life reinsurance subsidiaries. One of our strategic priorities is to evaluate whether to repatriate our long-term care insurance business from our Bermuda-domiciled captive into our U.S.-domiciled life insurance company in 2015. If we move forward, there will be no impact on our U.S. generally accepted accounting principles (U.S. GAAP) consolidated results of operations and financial condition as the financial impact of this reinsurance eliminates in consolidation, although we would anticipate an adverse impact on our U.S. life insurance company risk-based capital ratio, which would depend on the levels of capital in that company and in our Bermuda-domiciled captive at the time. In the first quarter of 2014, we executed an external reinsurance agreement reinsuring 20% of all sales of the product introduced in early 2013. In July 2014, we executed an external reinsurance agreement reinsuring 20% of all sales of the product launched in July 2014. External new business reinsurance levels vary and are dependent on a number of factors, including price, risk tolerance and capital levels. Over time, there can be no assurance that affordable, or any, reinsurance will continue to be available.

As a result of ongoing challenges in our long-term care insurance business, we continue pursuing initiatives to improve the risk and profitability profile of our business including: premium increases on our in-force liabilities; product refinements; changes to our current product offerings in certain states; investing in care coordination capabilities and service offerings; refining underwriting requirements; maintaining tight expense management; actively exploring additional reinsurance strategies; executing effective investment strategies; enhancing our financial and actuarial resources and analytical capabilities; and considering other actions to improve the performance of the overall business. These efforts have included evaluating the need for future in-force premium rate increases on issued policies. In the third quarter of 2012, we initiated a round of long-term care insurance in-force premium rate increases with an expectation of achieving an average premium increase in excess of 50% on three policy series of older generation policies and an average premium increase in excess of 25% on one earlier series of new generation policies. Subject to regulatory approval, this premium rate increase is expected to generate approximately $250 million to $300 million of additional annual premiums when fully implemented over the next several years. We also expect our reserve levels, and thus our expected profitability, to be impacted by policyholder behavior which could include taking reduced benefits or non-forfeiture options within their policy coverage. The goal of our rate actions is to mitigate losses on the three older generation policy series and help offset higher than priced-for loss ratios due to unfavorable business mix and lower lapse rates than expected on one newer generation product which remains profitable but with returns lower than original expectations. As of October 31, 2014, the initial round of rate actions had been approved in 47 states. After refining our net premium projections, our estimate of the net premiums increase from these 47 initial state approvals is approximately $190 million to $200 million when fully implemented by 2017. In the third quarter of 2013, we began filing for regulatory approval for premium rate increases ranging between

6% and 13% on more than $800 million in annualized in-force premiums on another series of new generation policies. As of October 31, 2014, we have received initial feedback from 30 states of which we received approvals in 22 states. We continue to pursue these rate increases in the states that have either not

responded or initially denied our rate increase filings. The approval process for in-force rate increases and the amount and timing of the rate increases approved varies by state. In certain states, the decision to approve or disapprove a rate increase can take several years. Upon approval, insureds are provided with written notice of the increase and increases are generally applied on the insured s policy anniversary date. Therefore, the benefits of any rate increase are not fully realized until the implementation cycle is complete. The premium rate increases on these policies will help offset higher than priced-for loss ratios, which have been caused by lower than anticipated lapse rates and higher frequency and severity of claims.

Continued low interest rates have also put pressure on the profitability and returns of our long-term care insurance business as higher yielding investments have matured and been replaced with lower yielding investments. We seek to manage the impact of low interest rates through asset-liability management, hedging strategies for a portion of our long-term care insurance product cash flows and through premium rate increases.

Fixed annuities. Results of our fixed annuities business are affected by investment performance, interest rate levels, slope of the interest rate yield curve, net interest spreads, equity market conditions, mortality, policyholder surrenders, expense and commission levels, new product sales, competitor actions and competitiveness of our offerings. Our competitive position within many of our distribution channels and our ability to grow this business depends on many factors, including product offerings and relative pricing.

In fixed annuities, sales may fluctuate as a result of consumer demand, competitor actions, changes in interest rates, credit spreads, relative pricing, return on capital decisions and our approach to managing risk. We monitor and change prices and crediting rates on fixed annuities on a regular basis to maintain spreads and targeted returns. We have targeted distributors and producers and maintained sales capabilities that align with our strategy. We expect to continue to manage these distribution relationships while selectively adding or shifting towards other product offerings, including fixed indexed annuities. Equity market performance and volatility could result in additional gains or losses, although associated hedging activities are expected to mitigate these impacts.

Refinements of product offerings and related pricing, including ongoing evaluation of commission structures and changes in investment strategies, support our objective of achieving appropriate risk-adjusted returns. Sales of fixed annuities increased $241 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The increase in sales was a function of increased penetration in the fixed indexed annuity market, higher overall interest rate environment in the current year compared to the first nine months of 2013, and relatively low sales in the first half of 2013 due to price competition. Sales of fixed annuities decreased $58 million during the third quarter of 2014 compared to the second quarter of 2014 mainly as a result of lower interest rates and increased competition.

International Mortgage Insurance

Results of our international mortgage insurance business are affected by changes in regulatory environments, employment levels, consumer borrowing behavior, lender mortgage-related strategies, including lender servicing practices, and other economic and housing market influences, including interest rate trends, home price appreciation or depreciation, mortgage origination volume, levels and aging of mortgage delinquencies and movements in foreign currency exchange rates.

Canada and Australia comprise approximately 98% of our international mortgage insurance primary risk in-force. These established markets will continue to be key drivers of revenues and earnings in our international mortgage insurance business. During the first quarter of 2014, foreign currencies continued weakening against the U.S. dollar, which negatively impacted the underlying reported results of our international mortgage insurance business. However,

during the second and third quarters of 2014, the Canadian dollar and the Australian dollar strengthened relative to the U.S. dollar compared to the first quarter of 2014 despite the strengthening of the U.S. dollar in September 2014. Any future movement in foreign exchange rates could impact future results.

In Canada, stable economic conditions have persisted with housing affordability benefiting from low interest rates and employment growth. The unemployment rate decreased slightly during the third quarter of 2014

and remains near its lowest level since December 2008. We expect the unemployment rate to stay near current levels in the near term. Additionally, average home prices have increased modestly during 2014 and we expect home prices to remain flat or increase modestly over the coming months, as a balanced housing market persists. However, some market observers have expressed concerns about the strength of the Canadian housing market, and we will continue to closely monitor the market. The Bank of Canada has maintained the overnight rate at 1.0% during recent years and we expect this rate to be maintained at or near this level through at least mid-2015.

We believe the favorable macroeconomic factors in Canada are supportive of a relatively stable housing market, including the high loan-to-value mortgage market. Going forward, we expect the growth rate of the high loan-to-value market to keep pace with growth in the overall housing resale market and home price appreciation. We expect that the 2014 residential mortgage insurance premium opportunity for high loan-to-value mortgages will be modestly higher than in 2013, in line with the expected increase in housing resale activity and an increase in mortgage insurance premium rates by an average of 15%, which became effective May 1, 2014 for new business. This is supported by the levels of flow new insurance written in the third quarter of 2014 as well as year to date in 2014.

In the 2013 federal budget, the Canadian government proposed to gradually limit the insurance of low loan-to-value mortgages to only those mortgages that will be used in the Canada Mortgage and Housing Corporation (CMHC) securitization programs. In addition, the Canadian government intends to prohibit the use of any taxpayer-backed insured mortgage, both high and low loan-to-value, as collateral in securitization vehicles that are not sponsored by CMHC. To complement these changes, the Canadian government passed amendments to the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada) in the second quarter of 2014 that established the legislative structure for regulation to implement the proposed changes. It is difficult to determine the impact of the changes until all the related regulation has been introduced. We now anticipate the proposed regulation will be implemented in 2015.

Earned premiums in Canada continued to decline in 2014 compared to 2013 primarily due to the relatively smaller 2010 and subsequent blocks of business. During 2014, losses in Canada decreased from previous periods as the total number of delinquencies and the proportion of new higher severity delinquencies declined, and we continued to realize benefits from our loss mitigation activities. Losses decreased during the first half of 2014 due to fewer new delinquencies as a result of strong credit quality of recent books and a stable economic environment, and a lower average reserve per delinquency due to a higher proportion of delinquencies in provinces where severity has been lower and home prices have appreciated. During the third quarter of 2014, losses increased from the second quarter of 2014 due to a higher level of new delinquencies, net of cures, but were favorable compared to losses in the third quarter of 2013.

In Australia, the overall economy continued to expand during the first three quarters of 2014, though at a more modest pace than in prior years, with ongoing evidence of variation in economic activity across sectors and regions. At the same time, housing activity improved primarily from sustained low interest rates. The unemployment rate increased slightly during 2014, remaining close to its highest level in three years and we expect it to increase modestly from current levels in the near to mid-term. During the first half of 2014, average home prices improved across most regions and during the third quarter of 2014 grew at the highest rate since early 2010. We expect average national home prices to increase modestly the remainder of 2014. During recent years, the Reserve Bank of Australia has gradually lowered the official cash rate to 2.50%, with the latest interest rate cut occurring in August 2013, as Australian and global economic conditions were somewhat weaker than expected. This historically low level of interest rates is now below the low point reached during the global financial crisis when rates were lowered to 3.00%. While we do not expect cash rates to be reduced from the current level in the near-term, the Reserve Bank of Australia has indicated that it will continue to monitor the outlook and adjust monetary policy as needed to support the broader economy.

Total mortgage market activity in Australia continued to improve during the first three quarters of 2014 as consumer confidence rose. Home price appreciation reduced housing affordability but demand for housing activity was driven by low interest rates, limited new supply and ongoing investor activity. This growth was also reflected in the higher loan-to-value mortgage origination market, as new flow insurance written is higher in the

third quarter of 2014 compared to the second quarter of 2014 excluding foreign exchange fluctuations. Earned premiums in Australia increased during the first three quarters of 2014 (excluding foreign exchange impacts) as a result of higher written premiums and the seasoning of our in-force block of business.

The overall delinquency rate decreased from 2013 levels during the first three quarters of 2014. Losses as well as the level and number of paid claims continued to decline in the first three quarters of 2014 due to increased borrower sales activity as well as improved severity from the strong housing market, particularly in the states of New South Wales and Victoria.

On May 15, 2014, Genworth Mortgage Insurance Australia Limited (Genworth Australia), a holding company for Genworth s Australian mortgage insurance business, priced its initial public offering (IPO) of 220,000,000 of its ordinary shares at an initial public offering price of AUD$2.65 per ordinary share. The offering closed on May 21, 2014. Following completion of the offering, Genworth Financial beneficially owns 66.2% of the ordinary shares of Genworth Australia. The third quarter of 2014 was the first full quarter reflecting a minority interest, which reduced net income by 33.8% for portions attributable to third parties.

The overall economic environment in Europe began recovering in the second quarter of 2013, but remains fragile as unemployment is hovering just below record highs and we expect future growth to be slow. As a result of the lingering economic recession, we have seen an elevated number of delinquencies and lower cures, most notably in Ireland, contributing to losses in our European mortgage insurance business. In Ireland, we experienced increased delinquencies and reserves at the beginning of 2013 but more recently have observed a moderate improvement primarily driven by our loss mitigation efforts and lower number of new delinquencies compared to 2013. In the fourth quarter of 2013, lender settlements, primarily in Ireland, reduced delinquencies by approximately 2,400 and the outstanding risk in-force in Ireland by approximately 50%. For the remainder of 2014, we expect to continue our strategy of only writing new business in Italy, Finland, Germany and the United Kingdom.

U.S. Mortgage Insurance

Results of our U.S. mortgage insurance business are affected by the following factors: competitor actions; unemployment; underemployment; other economic and housing market trends, including interest rates, home prices, mortgage origination volume mix and practices; the levels and aging of mortgage delinquencies, which may be affected by seasonal variations, the inventory of unsold homes, lender modification and other servicing efforts; and resolution of pending or any future litigation among other items. The impact of prior years weakness and uncertainty in the domestic economy, related levels of unemployment and underemployment and resulting increase in foreclosures, the number of borrowers seeking loan modifications and the level of housing inventories with the related impact on home values, all combined to contribute adversely to the performance of our insured portfolio relating to our 2005 through 2008 book years. Going forward, we expect moderate economic growth characterized by ongoing modest improvement in home values coupled with an expectation that unemployment and underemployment levels will continue to gradually decrease over time. Our results are subject to the continued recovery of the U.S. housing market and the extent of seasonality that has been historically experienced in the second half of the year.

Prior to 2012, the convergence of a weak housing market, tightened lending standards, the lack of consumer confidence and the lack of liquidity in some mortgage securitization markets, along with volatility in mortgage interest rates, came together to drive a smaller mortgage origination market. During this same period, the private mortgage insurance penetration rate was driven down by growth in the Federal Housing Administration (FHA) originations, associated with multiple pricing, underwriting and loan size factors, and the negative impact of GSE guarantee fees and loan level pricing which made private mortgage insurance solutions less competitive with FHA solutions. Driven by lower interest rates and a strong refinancing market, the mortgage originations market recovered and strengthened

during 2012 and 2013. During this same period, we have continued to benefit from an improved private mortgage market penetration rate as the private mortgage insurance industry became more competitive versus the FHA alternative that was driven in part by FHA price, risk management and cancelability

actions. In the first quarter of 2014, mortgage originations were lower than those in the prior quarter as a result of expected seasonal trends, lower refinance activity and adverse weather conditions throughout much of the United States, while the private mortgage insurance penetration rate was flat quarter over quarter. In the second quarter, the mortgage originations market rebounded due to expected seasonal improvement and has remained strong through the third quarter. Purchase originations, which have grown faster than refinancing activities over this same period, have driven an increase in the private mortgage insurance penetration rate through the second and third quarters. As the mortgage originations market has moved from a higher level of refinancing activities to that of a higher purchase origination market, we continue to believe the private mortgage insurance industry is likely to regain market share over time absent any other market forces. While tightened credit standards for mortgage originations remain in place, we are seeing a modest easing of lender credit policy standards for loans that fall within our own credit guidelines. In December 2013, the acting director of the Federal Housing Finance Agency (FHFA) published a proposal to increase GSE loan fees. In January 2014, the newly appointed director of the FHFA suspended implementation of the proposed increases. FHFA subsequently published a request for input on a series of questions related to GSE fee policy and implementation. We responded by way of a comment letter to the FHFA s request, which was due August 4, 2014. A final rule is still pending. Potential changes stemming from a FHFA review of proposed increases to existing GSE fees could have an impact on mortgage originations and on the competitiveness of private mortgage insurance versus that of FHA insurance.

In late 2013, we announced reduced pricing and expanded underwriting guidelines that are more in line with industry prices and guideline standards, which we believe over time will increase our competitiveness in the mortgage insurance market while maintaining what we believe will be a profitable book of business. As a result, our U.S. mortgage insurance market share has grown approximately two percentage points since the third quarter of 2013 driven in part by the impact of favorable pricing changes that went into effect over these periods and our differentiated service offering. Even though home affordability is above historical levels in certain regions of the United States, an ongoing rise in interest rates may slow the housing recovery. Conversely, rising interest rates slow down refinance activity levels which improve the persistency levels of our insured portfolio as fewer loans pay off and corresponding mortgage insurance coverage remains in force. Meanwhile, we continue to manage the quality of new business through prudent underwriting guidelines, which we modify from time to time when circumstances warrant in a manner we expect will limit the amount of coverage we write on riskier loans. As of September 30, 2014, loans modified through the Home Affordable Refinance Program (HARP), accounted for approximately $0.3 billion of insurance in the third quarter of 2014, and approximately $19.0 billion of insurance for the ever to-date period through September 30, 2014. For financial reporting purposes, we report HARP modified loans as a modification of the coverage on existing insurance in-force rather than new insurance written. Loans modified through HARP have extended amortization periods and reduced interest rates, which reduce borrower s monthly payments. Over time, these modified loans are expected to result in extended premium streams and a lower incidence of default. The government has recently extended HARP through the year ending December 31, 2016.

On July 10, 2014, the FHFA released publicly a draft of the revised PMIERs guidelines. These guidelines, as drafted, contemplate an effective date for compliance 180 days after the final publication date and final publication currently is anticipated to be on or about year-end 2014. In addition, the guidelines permit a transition period, subject to GSE approval, of two years from the publication date to meet the required capital levels. We provided comments on September 8, 2014 pursuant to the public request for input and we will continue to work with the FHFA and GSEs in an effort to have appropriate refinements made before the new guidelines are finalized.

We previously disclosed our preliminary estimates of the additional capital required to meet the PMIERs guidelines in their current form and operate our business as being between $450 million and $550 million as of June 30, 2015 and less than $175 million as of December 31, 2016. We now estimate that the amount of additional capital required to meet these guidelines and operate our business will be between $500 million and $700 million as of June 30, 2015.

The revised estimate is a result of, among other factors, changes in our estimate of available assets and risk-based required assets as calculated under the PMIERs guidelines (the PMIERs Net

Asset Requirements) due to, among other things, the accrual recorded in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities and declines in the value of the shares of our Canadian mortgage insurance subsidiary that are owned by our U.S. mortgage insurance business (primarily as a result of the impact of share price and foreign exchange movements on the value of those shares), as well as changes in calculations and our interpretation of the guidelines. Our estimate is based on the current draft guidelines as we understand them and is subject to change.

We are no longer estimating, and withdraw our prior estimate of, the amount of additional capital needed as of December 31, 2016 (the end of the proposed transition period for compliance) in order to meet these guidelines and operate our business, both because we intend to comply with the new PMIERs guidelines by June 30, 2015 (as explained below) and because of the increased uncertainties involved in providing an estimate for such an extended time period.

The amount of additional capital that will be required to meet the PMIERs Net Asset Requirements and operate our business is dependent upon, among other things, (i) the extent the final PMIERs guidelines as ultimately adopted differ materially from the current draft, including with respect to the amount and timing of additional capital requirements and the amount of capital credit provided to various types of assets; (ii) the way the guidelines are applied and interpreted by the GSEs and FHFA as and after they are implemented; (iii) the future performance of the U.S. housing market; (iv) our generating and having expected U.S. mortgage insurance business earnings, available assets and risk-based required assets (including as they relate to the value of the shares of our Canadian mortgage insurance subsidiary that are owned by our U.S. mortgage insurance business as a result of share price and foreign exchange movements or otherwise), reducing risk in-force and reducing delinquencies as anticipated, and writing anticipated amounts and types of new U.S. mortgage insurance business; and (v) our projected overall financial performance, capital and liquidity levels being as anticipated. As a result, the amount of required capital may vary significantly from the amounts currently anticipated.

We currently believe we have a variety of sources we could utilize to satisfy these capital requirements, and currently intend to utilize primarily reinsurance (or similar) transactions, together with cash available at the holding company, to satisfy them. Our use of reinsurance or similar transactions depends upon, among other things, the availability of the markets for these transactions, the costs and other terms of reinsurance or the other transactions, the GSEs approach to, and the capital treatment for, these reinsurance or the other transactions, the performance of the U.S. mortgage insurance business, and the absence of unforeseen developments. Another potential capital source includes, but is not limited to, the issuance of securities by Genworth Financial or Genworth Holdings.

We currently intend that our U.S. mortgage insurance business will meet the additional capital requirements contained in the PMIERs guidelines by the anticipated effective date of June 30, 2015. We will seek to utilize the transition period provided for in the draft guidelines if we do not comply by the anticipated effective date (subject to GSE approval). We believe that our U.S. mortgage insurance business is well positioned to meet the draft version of the operational and financial requirements contained in the guidelines within the prescribed transition period and expect the business to maintain its strong presence in the private mortgage insurance market.

In December 2013, Genworth Holdings issued $400 million of senior notes in anticipation of increased capital requirements then expected to be imposed by the GSEs in connection with the revised PMIERs guidelines. Following the issuance of the senior notes in December 2013, Genworth Financial contributed $100 million of the proceeds to Genworth Mortgage Insurance Corporation (GEMICO), our primary U.S. mortgage insurance subsidiary, with an additional $300 million contributed to Genworth Mortgage Holdings, LLC, a U.S. mortgage holding company. In advance of the release of the draft PMIERs guidelines, in May 2014, we contributed the $300 million that was being held at the U.S. mortgage holding company to GEMICO.

Table of Contents

As of September 30, 2014, reflecting the favorable impact of the above-referenced $300 million capital contribution in May 2014, GEMICO s risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance (NCDOI), GEMICO s domestic insurance regulator, was approximately 14.8:1, compared with a risk-to-capital ratio of approximately 14.0:1 as of June 30, 2014. This risk-to-capital ratio remains below the NCDOI s maximum risk-to-capital ratio of 25:1. The NCDOI s current regulatory framework by which GEMICO s risk-to-capital ratio is calculated differs from the draft capital requirement methodology that is intended to be effective under the new PMIERs guidelines once those new regulations are implemented. GEMICO s ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GEMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, as well as the amount of policy lapses and the amount of additional capital that is generated within the business or capital support (if any) that we provide. Our estimate of the amount and timing of future losses and these foregoing factors are inherently uncertain, require significant judgment and may change significantly over time.

The NAIC is reviewing the current Mortgage Guaranty Model Act, including minimum capital and surplus requirements for mortgage insurers through the Mortgage Guaranty Insurance Working Group (the MGIWG). The MGIWG has not established a date by which it must make proposals to change such requirements. However, as we learn more specific information about these NAIC activities, we continue to assess the potential impact, if any, that these new requirements may have on our U.S. mortgage insurance business and evaluate the options potentially available to meet any legislative or regulatory measures adopted as a result of the NAIC recommendations.

Effective July 2013, Fannie Mae no longer purchases loans with down payments of less than 5% (subject to certain limited exceptions). Freddie Mac has had a similar policy in place since June 2011. We believe this has limited the demand for private mortgage insurance on loans with down payments below 3%. In addition, FHFA issued for comment a proposal to reduce GSE loan limits. Comments on that proposal were due in March 2014, to which we filed a comment letter response and to-date the FHFA has not yet issued a final determination. If implemented, lower loan limits could also limit demand for mortgage loans with private mortgage insurance coverage. In October 2014, U.S. federal regulators issued a notice of revised proposed rules to implement the credit risk retention provision under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The revised rules propose to define qualified residential mortgages to include low-down-payment mortgage loans, which is consistent with the definition of qualified mortgages that is already adopted by the Consumer Financial Protection Bureau (CFPB). This rule will have the effect of including many low-down-payment mortgage loans within the definition of qualified residential mortgage, which could increase the demand for mortgage loans with private mortgage insurance coverage. We also continue to believe that the mortgage insurance industry level of market penetration and eventual market size will continue to be affected by any actions taken by the GSEs, the FHA or the U.S. government impacting housing or housing finance policy, underwriting standards, loan limits or related reforms.

While we continue to experience an ongoing decrease in the level of new delinquencies, the performance of our portfolio continues to be adversely affected by our 2005 through 2008 book years, although we believe these loans peaked in their delinquency development during the first quarter of 2010. While this amount has declined from prior years, delinquencies for these book years continue as the principal source of new delinquencies reported to us. Beginning in mid-2010, we saw an increase in foreclosure starts as well as an increase in our paid claims as late stage delinquency loans go through foreclosure. While foreclosure starts continue at a pace higher than foreclosure start levels in periods before mid-2010, we are seeing a decline in the number of foreclosure starts currently, which we believe is in part a result of the implementation of a new CFPB mortgage servicing rule (the CFPB Rule) that requires lenders and servicers to defer foreclosure starts until a borrower is at least 120-days delinquent to permit possible loan modification or workout solutions. We believe the deferral of the foreclosure start date, coupled with the CFPB Rule s early intervention provisions that require a lender or servicer to utilize good faith efforts to establish live contact with delinquent borrowers and provide written notice of available loss mitigation options, may result in additional loan

workout or modification solutions that would

ultimately reduce the number of foreclosure actions from these early stage delinquencies. In addition, we have seen differences in performance among loan servicers regarding the ability to modify loans and avoid foreclosure. Moreover, a lengthening of the foreclosure process itself particularly in judicial foreclosure states has led to increased claims expense relative to foreclosures conducted in the pre-financial crisis environment. Depending on how experience evolves, we may need to adjust our reserve frequency or severity assumptions that could either increase or decrease reserves over time as experience from these programs emerges.

Expanded efforts in the mortgage servicing market to modify loans and improved underwriting guidelines and mortgage servicing practices have combined to improve performance of our 2009 through 2013 book years compared with the performance of prior book years, coupled with the diminished impact of our 2005 through 2008 book years as those loans are resolved, resulted in continued reductions in overall delinquency levels through 2013 and through the first three quarters of 2014. While we continue to see benefits from loan modification actions on newer delinquencies within our portfolio, loan modification efforts have continued to remain more difficult to complete on the older delinquencies within our delinquent loan population. We have seen the older delinquencies within our portfolio continue to age through the first three quarters of 2014. Both foreclosures and liquidations remained elevated through the same period, thereby resulting in ongoing elevated levels of loss reserves and claims. We believe that the ability to cure delinquent loans is dependent upon such things as employment levels, home values and mortgage interest rates. In addition, while we continue to execute on our loan modification strategy, which cures the underlying delinquencies and improves the ability of borrowers to meet the debt service on the mortgage loans going forward, we have seen the level of ongoing loan modification actions decline moderately during the period from 2011 through the third quarter of 2014 compared with the levels we experienced during preceding periods. We expect our level of loan modifications to continue to decline going forward in line with the expected reduction in delinquent loans and because of the continuing aging of delinquencies. However, we further expect the rate at which we modify delinquent loans to remain steady as new programs take effect and the overall economy continues improving over time.

Our loss mitigation activities, including those relating to workouts, loan modifications, pre-sales, rescissions, claims administration (including curtailment of claim amounts) and targeted settlements, net of reinstatements or adjustments, resulted in an estimated reduction of expected losses of $283 million and $439 million, respectively, including $217 million and $263 million, respectively, from workouts and loan modifications during the nine months ended September 30, 2014 and 2013.

Since 2010, benefits from loss mitigation activities have shifted from rescissions to loan modification activities and reviews of loan servicing and claims administration compliance from which we expect a majority of our loss mitigation benefits to arise going forward. While we expect to continue evaluating compliance of the insured or its loan servicer with respect to its servicing obligations under our master policy for loans insured thereunder and may curtail claim amounts payable based on our evaluations of such compliance, we cannot give assurance on the extent or level at which such claim curtailments will continue. The settlement with Bank of America, N.A. and our discussion with another servicer to resolve a pending curtailment dispute is expected to reduce our claims curtailment levels prospectively. Although loan servicers continue to pursue a wide range of approaches to execute appropriate loan modifications, government-sponsored programs such as Home Affordable Modification Program (HAMP) continue to result in fewer modifications as alternative programs have gained momentum. With lower benefits from government-sponsored programs and the impact from alternative programs to date, we have experienced higher levels of loss reserves and/or paid claims. The Obama Administration announced that it would extend HAMP through December 31, 2015, and expand borrower eligibility by adjusting certain underwriting requirements. In addition, incentives paid to the owner of a loan that qualifies for principal reduction under HAMP are being increased and, for the first time, will be offered to the GSEs. However, to date, the GSEs are not participating in this program. While the impact of the these program extensions to date has remained positive, there can be no assurance that the increase in the number of loans that are modified under HAMP, including mortgage loans we insure currently, is sustainable over

time or that any such modifications will succeed in avoiding foreclosure. In addition, while borrowers who benefitted from loan modifications under HAMP were provided mortgage payment relief through substantial interest rate reductions,

beginning in the third quarter of 2014, those same borrowers will begin to experience a gradual interest rate increase of up to 1% a year until their mortgage interest rate adjusts to the market rate at the time of their loan modification. These interest rate resets are in accordance with the terms and conditions agreed to at the time of the underlying HAMP loan modification. While the government and the mortgage services industry remain committed to working with borrowers under this program, we cannot predict how these HAMP interest rate resets will affect the successes achieved under this program or if the resulting effect of avoiding foreclosure is sustainable over time once the impact of the rate reset process evolves. Depending upon the mix of loss mitigation activity, market trends, employment levels in future periods and other general economic impacts which influence the U.S. residential housing market, we could see additional adverse loss reserve development going forward. We expect the primary source of new reserves and losses to come from new delinquencies.

We have lender captive reinsurance programs in place in which we share portions of our premiums associated with flow insurance written on loans originated or purchased by lenders with captive insurance entities of these lenders in exchange for an agreed upon level of loss coverage above a specified attachment point. We have exhausted certain captive reinsurance tiers for our 2004 through 2008 book years based on loss development trends. While we continue to receive cash benefits from these captive arrangements at the time of claim payment, the level of benefit is expected to continue to decline going forward due to exhaustion of reinsurance as more reinsurers satisfy their contractual obligations such that remaining risk is borne by GEMICO. All of our captive reinsurance arrangements are in runoff with no new books of business being added going forward. However, while we have no plans currently to expand our lender captive reinsurance program, we continue to consider appropriate new third-party reinsurance arrangements as potential available sources of capital for our U.S. mortgage insurance business.

In September 2014, we received a letter from Fannie Mae in conjunction with the pending PMIERs guidelines to supplement the existing GSE mortgage insurer eligibility standards (the MI Eligibility Standards). In that letter, our U.S. mortgage insurance subsidiaries and other mortgage insurers in the U.S. mortgage insurance industry are required to, among other things, adhere to specified conditions beyond those contained in the MI Eligibility Standards as set forth in the letter. These new regulatory measures are expected to remain in effect until the proposed revised PMIERs guidelines are finalized and effective. In particular, Fannie Mae is requiring our U.S. mortgage insurance subsidiaries to obtain their written approval prior to taking any of the following actions:

- Enter into any new or alter any existing capital support agreement, assumption of liabilities, or guaranty agreement (except for contractual agreements in the normal course of business);
- Enter into any new arrangements or alter any existing arrangements under lease, tax-sharing, and intercompany expense-sharing agreements;
- Make any investment, contribution, or loan to any affiliates, subsidiaries or non-affiliated entities;
- Pay dividends to its affiliates or its holding company;
- Enter into any new risk novation or commutation transaction;

Incur or assume an obligation or indebtedness, contingent or otherwise, including, without limitation, an obligation to provide additional insurance, or related service or product, or to provide remedy to an obligation of a subsidiary;

Permit a material change in, or acquisition of, control or beneficial ownership (deemed to occur if any person or entity or group of persons or entities acquires or seeks to acquire 10% or more of the voting securities or securities convertible into voting securities);

Make changes to its corporate or legal structure;

Transfer or otherwise shift its assets, risk, or liabilities to any subdivision, segment, or segregated or separate account or a U.S. mortgage insurance affiliate or subsidiary;

Assume any material risk other than directly providing mortgage guaranty insurance;

98

Provide capital, capital support, or financial guaranty to any U.S. mortgage insurance affiliate or subsidiary that is either an approved insurer or an exclusive affiliated reinsurer;

Enter into any new or alter any existing reinsurance or risk sharing transaction; and

With respect to lender captive reinsurance arrangements:

Allow lender captive reinsurance providers to pay dividends or distribute funds to the parent or affiliates of the lender captive reinsurer in amounts greater than permitted by the lender captive reinsurance contract;

Effect a material or economically adverse alteration or amendment to a lender captive reinsurance contract; and

Terminate any lender captive reinsurance contract unless it would receive at least 80% of the value of assets in the captive trust.

While we currently do not believe that these new regulatory measures imposed by Fannie Mae will have a material adverse impact on our financial condition or results of operations, we continue to assess the potential impact, if any, that these new regulatory measures may have on our U.S. mortgage insurance business.

Effective October 1, 2014, we issued revised Master Policies to each of our actual and prospective insureds. The new Master Policy, among other things, adopted provisions sought for inclusion by the GSEs in every master policy in use in the industry as of October 1, 2014. We do not believe use of the new Master Policy will have a material impact on the financial condition or results of operations of our U.S. mortgage insurance business.

International Protection

Growth and performance of our lifestyle protection insurance business is dependent in part on economic conditions and other factors, including competitor actions, consumer lending and spending levels, unemployment trends, client account penetration and mortality and morbidity trends. Additionally, the types and mix of our products will vary based on regulatory and consumer acceptance of our products.

Although consumer lending levels in Europe have stabilized, they remain challenged particularly given concerns regarding various European economies and the lingering effect of the European debt crisis. Unemployment rates in the third quarter of 2014 remained at levels experienced in the second quarter of 2014 with regional variation but have declined since the fourth quarter of 2013. In aggregate, European gross domestic product continued to grow in the first nine months of 2014, building on the growth in the second half of 2013 and reversing the negative trend experienced in the first half of 2013.

Net operating income of our lifestyle protection insurance business for the nine months ended September 30, 2014 increased slightly from the nine months ended September 30, 2013 as higher premiums and favorable taxes were mostly offset by higher losses and lower net investment income. New claim registrations decreased 15% in the nine months ended September 30, 2014 from 2013 levels. We could experience higher losses if claim registrations

increase, particularly with continued high unemployment in Europe. Our loss ratio for the nine months ended September 30, 2014 was 28% compared to 25% for nine months ended September 30, 2013 as losses increased, partially offset by higher premiums in the current year.

We have strengthened our focus in Europe on key strategic client relationships and are de-emphasizing our distribution with some other distributors where we are not expect to achieve desired sales and profitability levels. This focus should enable us to better serve our strategic clients and promote improved profitability and a lower cost structure over time. Additionally, we continue to pursue expanding our geographical distribution into Latin America and have secured an agreement with a large insurance partner. We are currently working with this partner to establish product, distribution and servicing capabilities and are now actively selling products in Peru, Colombia and Mexico.

Assuming the economies and lending environment in Europe are stable and do not improve in the near term, we expect our lifestyle protection insurance business to produce only slightly positive earnings in 2014. With our focus on enhanced distribution capabilities in Europe and growth in select new markets, we anticipate these efforts, coupled with sound risk and cost management disciplines, should, over time, improve profitability and help offset the impact of economic or employment pressures as well as lower levels of consumer lending in Europe. However, depending on the economic situation in Europe, we could experience declines in sales and operating results.

Distributor conduct associated with the sale of payment protection insurance products is currently under regulatory scrutiny in Ireland and Italy. While the outcome of these reviews is unknown at this time and our distributors are not Genworth employees, the outcome could impact how the product is distributed and could have a negative impact on our sales.

Runoff

Results of our Runoff segment are affected by investment performance, interest rate levels, net interest spreads, equity market conditions, mortality, policyholder loan activity, policyholder surrenders and scheduled maturities. In addition, the results of our Runoff segment can significantly impact our operating performance, regulatory capital requirements, distributable earnings and liquidity.

In January 2011, we discontinued sales of our individual and group variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts. Since then, equity market volatility has caused fluctuations in the results of our variable annuity products and regulatory capital requirements. In the future, equity and interest rate market performance and volatility could result in additional gains or losses in our variable annuity products although associated hedging activities are expected to partially mitigate these impacts. Volatility in the results of our variable annuity products can result in favorable or unfavorable impacts on earnings and statutory capital. In addition to the use of hedging activities to help mitigate impacts related to equity market volatility and interest rate risks, in the future, we may pursue reinsurance opportunities to further mitigate volatility in results and manage capital.

The results of our institutional products are impacted by scheduled maturities, as well as liquidity levels. However, we believe our liquidity planning and our asset-liability management will mitigate this risk. While we do not actively sell institutional products, we may periodically issue funding agreements for asset-liability matching purposes.

We expect to manage our runoff products for at least the next several years. Several factors may impact the time period for these products to runoff including the specific policy types, economic conditions and management strategies.

Financial Strength Ratings

Ratings with respect to financial strength are an important factor in establishing the competitive position of insurance companies. Ratings are important to maintaining public confidence in us and our ability to market our products. Rating organizations review the financial performance and condition of most insurers and provide opinions regarding financial strength, operating performance and ability to meet obligations to policyholders. Short-term financial strength ratings are an assessment of the credit quality of an issuer with respect to an instrument considered short-term in the relevant market, typically one year or less.

100

Table of Contents

As of November 6, 2014, our principal life insurance subsidiaries were rated in terms of financial strength by Standard & Poor s Financial Services, LLC (S&P), Moody s Investor Service, Inc. (Moody s) and A.M. Best Company, Inc. (A.M. Best) as follows:

Company	S&P rating	Moody s rating	A.M. Best rating
Genworth Life Insurance Company	BBB+ (Good)	A3 (Good)	A (Excellent)
Genworth Life and Annuity Insurance Company	BBB+ (Good)	A3 (Good)	A (Excellent)
Genworth Life Insurance Company of New York	BBB+ (Good)	A3 (Good)	A (Excellent)

As of November 6, 2014, our principal mortgage insurance subsidiaries were rated in terms of financial strength by S&P, Moody s and Dominion Bond Rating Service (DBRS) as follows:

Company	S&P rating	Moody s rating	DBRS rating
Genworth Mortgage Insurance Corporation	BB- (Marginal)	Ba1 (Questionable)	Not rated
Genworth Residential Mortgage Insurance Corporation of NC	BB- (Marginal)	Ba1 (Questionable)	Not rated
Genworth Financial Mortgage Insurance Pty. Limited (Australia)	A+ (Strong)	A3 (Good)	Not rated
Genworth Financial Mortgage Insurance Limited (Europe)	BB+ (Marginal)	Not rated	Not rated
Genworth Financial Mortgage Insurance Company Canada	A+ (Strong)	Not rated	AA (Superior)
Genworth Seguros de Credito a la Vivienda S.A. de C.V. (1)	Not rated	Aa3.mx	Not rated

(1) Also rated Baa3 by Moody s on a Global Scale Insurance financial strength basis. The national scale rating has been withdrawn and will be re-issued at the local country level.

As of November 6, 2014, our principal lifestyle protection insurance subsidiaries were rated in terms of financial strength by S&P as follows:

Company	S&P rating
Financial Assurance Company Limited	A- (Strong)
Financial Insurance Company Limited	A- (Strong)

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

On November 6, 2014, following our earnings announcement, which included a discussion of the completion of a comprehensive review of our long-term care insurance claim reserves conducted over the past few months, Moody s announced, among other things, that it placed the credit ratings of Genworth Holdings and the financial strength ratings of its principal life insurance subsidiaries on review for downgrade. Moody s also announced that it has placed the financial strength rating of Genworth Seguros de Credit a la Vivienda S.A. de C.V. under review for downgrade and has withdrawn the rating and will re-issue it at the local country level. On November 6, 2014, S&P has announced that it has lowered the issuer credit and senior unsecured debt ratings on Genworth Holdings to BB+ from BBB- and lowered its financial strength ratings of its principal life insurance subsidiaries to BBB+ from A- , in each case with a

negative outlook, and has also lowered its financial strength ratings of certain of our financing entities. As a result, because of their ratings approach linking ratings of affiliated companies, S&P also announced that it has lowered its financial strength ratings on our principal Canadian, Australian and European mortgage insurance subsidiaries and placed its ratings of our principal lifestyle protection insurance subsidiaries on credit-watch with negative implications.

A.M. Best affirmed our life insurance subsidiaries ratings at A/Stable on November 6, 2014.

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

Critical Accounting Estimates

As of September 30, 2014, other than as set forth below, there have been no material changes to critical accounting estimates set forth in our Annual Report on Form 10-K filed on March 3, 2014.

In connection with our long-term care insurance business, we perform PVFP recoverability testing, DAC recoverability testing and loss recognition testing under U.S. GAAP, as well as asset adequacy testing under statutory accounting principles, each of which are required tests that are performed as a part of our active life margin review. Each of PVFP recoverability testing, DAC recoverability testing and loss recognition testing under U.S. GAAP is discussed further below.

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

We regularly review our assumptions and periodically test PVFP for recoverability in a manner similar to our treatment of DAC. As of December 31, 2013, we believe all of our businesses had sufficient future income where the related PVFP was recoverable based on our best estimates of morbidity, mortality, withdrawal or lapse rate, maintenance expense, premiums and interest rates that were expected to occur.

Continued low interest rates, lower than expected termination rates and resulting higher than anticipated number of claims have adversely impacted the margins on our acquired long-term care insurance business. As of December 31, 2013, we had margin of approximately $156 million on $2,529 million of net U.S. GAAP liability related to this acquired long-term care insurance business. The risks we face with respect to this business include adverse variations in morbidity, interest rates, lapse and mortality. Adverse variation in one or more of these risks could result in additional amortization of PVFP and the establishment of additional benefit reserves.

During the third quarter of 2014, we completed a comprehensive review of our long-term care insurance claim reserves conducted over the past few months. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. Due to the timing of the completion of the comprehensive review of our long-term care insurance claim reserves, and the complexity of the calculation of margins, we will review the applicability of any claim reserve assumptions and methodologies that changed during that review and incorporate them, as appropriate, as part of our review of PVFP recoverability, which is expected to be completed during the fourth quarter of 2014 as a part of our active life margin review. As a part of that analysis, we expect these changes will materially reduce the margins associated with this acquired business. We are developing related management actions (including developing assumptions for our expected premium increases and other items, which will consider, where applicable, our assessment of expected regulatory approvals of these items) and will include our best estimate of the impact of these items in our recoverability testing, which we expect will offset much, or possibly most, of the reduction on overall margins for our long-term care insurance business from the claims

review. However, due to the age of this business the results of our PVFP recoverability review are less likely to benefit from management actions and therefore more likely to be negatively impacted than newer business. We may also make changes to other

PVFP recoverability assumptions and methodologies (including related to morbidity, interest rates, lapse and mortality, among others), but we currently cannot predict with more specificity the nature, extent or margin impact of any of the assumption and methodology changes we may make in completing our annual margin review and recoverability testing, and such changes could require us to amortize more PVFP and/or establish additional benefit reserves, the impact of which may or may not be material.

Goodwill. Goodwill represents the excess of the amounts paid to acquire a business over the fair value of its net assets at the date of acquisition. Subsequent to acquisition, goodwill could become impaired if the fair value of a reporting unit as a whole were to decline below the value of its individually identifiable assets and liabilities. This may occur for various reasons, including changes in actual or expected income or cash flows of a reporting unit or generation of income by a reporting unit at a lower rate of return than similar businesses.

Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the reporting unit level, which is either an operating segment or a business one level below the operating segment. Under certain circumstances, interim impairment tests may be required if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The determination of fair value for our reporting units is primarily based on an income approach whereby we use discounted cash flows for each reporting unit. When available, and as appropriate, we use market approaches or other valuation techniques to corroborate discounted cash flow results. The discounted cash flow model used for each reporting unit is based on either operating income or statutory distributable income, depending on the reporting unit being valued.

For the operating income model, we determine fair value based on the present value of the most recent income projections for each reporting unit and calculate a terminal value utilizing a terminal growth rate. We primarily utilize the operating income model to determine fair value for our Canadian and Australian mortgage insurance reporting units. In addition to the operating income model, we also consider the valuation of our Canadian and Australian mortgage insurance subsidiaries publicly traded stock price in determining fair value for those reporting units. The significant assumptions in the operating income model include: income projections, which are dependent on new business production, customer behavior, operating expenses and market conditions; discount rate; and terminal growth rate.

For the statutory distributable income model, we determine fair value based on the present value of projected statutory net income and changes in required capital to determine distributable income for the respective reporting unit. We utilize the statutory distributable income model to determine fair value for our life and long-term care insurance reporting units. The significant assumptions in the statutory distributable income model include: required capital levels; income projections, which are dependent on mortality or morbidity, new business production growth, new business projection period, reinsurance, policyholder behavior and other specific industry and market conditions; and discount rate.

The cash flows used to determine fair value are dependent on a number of significant assumptions based on our historical experience, our expectations of future performance and expected economic environment. We determine the best estimate of our income projections based on current market conditions as well as our expectation of future market conditions. Our estimates of projected income are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate used to determine fair value is based on our judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows as well as our expectation of the discount rate that would be utilized by a hypothetical market participant.

We consider our market capitalization in assessing the reasonableness of the fair values estimated for our reporting units in connection with our goodwill impairment testing. In prior years, we impaired all goodwill associated with our U.S. mortgage and lifestyle protection insurance businesses as well as our annuity and

institutional products. Accordingly, these businesses are no longer subject to goodwill impairment testing but do have a significant impact on our market capitalization in comparison to our book value. When reconciling to our market capitalization, we estimate the fair value for these businesses and also consider the negative value that would be associated with corporate debt, which would be subtracted from the fair value of our businesses to calculate the total value attributed to equity holders. We then compare the total value attributed to equity holders to our market capitalization.

During the third quarter of 2014, we completed our annual goodwill impairment analysis as of July 1, 2014. As a result of this analysis, we determined fair value was lower than book value for our life and long-term care insurance reporting units discussed further below. Our Canadian and Australian mortgage insurance reporting units had fair values in excess of their respective book values.

As part of our annual goodwill impairment testing, we noted that our life and long-term care insurance reporting units fair values were less than their respective book value. If fair value is lower than book value, the reporting unit s fair value is allocated to assets and liabilities as if the reporting unit had been acquired in a business combination with the amount of goodwill being established representing the implied goodwill amount that is recoverable. If this implied goodwill exceeds the reporting unit s recorded goodwill balance, goodwill is deemed recoverable. See below for additional details on the significant assumptions used in determining the amount of goodwill that is recoverable for our life and long-term care insurance reporting units.

The key assumptions that impact our evaluation of implied goodwill for our life and long-term care insurance reporting units under our goodwill impairment assessment primarily relate to the valuation of new business. While the valuation of our in-force business is included in the fair value of the reporting unit, the in-force value does not contribute significant, incremental value to support goodwill. Based on a hypothetical acquisition under our goodwill impairment assessment, any difference in our current carrying value and the fair value of our in-force business would be associated with an intangible asset for PVFP and would not create additional implied goodwill. The valuation of new business is determined by utilizing several inputs such as discount rate, expected new business sales for the next 10 years, and expected new business profitability, which is primarily dependent on policyholder behavior assumptions, expected benefit payments, reinsurance, expected investment returns and targeted capital levels. The inclusion of 10 years of new business production is based on our experience of actuarial appraisals for life insurance companies where this is a common assumption. For our life and long-term care insurance reporting units, we utilized discount rates of 10% and 14%, respectively, based on our estimate of the weighted-average cost of capital that a hypothetical market participant would use in assessing the value of the businesses.

During the third quarter of 2014, in connection with our strategic planning process and in light of new leadership within our U.S. Life Insurance Division, we revisited our prior strategy of focusing on term life insurance, given the capital-intensive nature of the product and our revised capital plan. We are in the process of transitioning to higher return permanent products, including universal life insurance, indexed universal life insurance and linked-benefit products, and expect sales growth to occur over time. Given this transition, our annual sales projections included in the determination of fair value for our life insurance reporting unit were significantly lower than sales levels expected in prior year s goodwill testing analysis. In our current goodwill testing analysis, sales assumptions are expected to grow to approximately $115 million over the first five years, as compared to our prior goodwill testing analysis as of December 31, 2013, which assumed sales would grow to $220 million over the same period. We are currently in the process of making product and distribution changes which could further increase permanent life insurance sales levels, but are not assuming we achieve our prior total life insurance sales levels until we experience results from these actions. This shift in new business mix to a relatively lower volume of sales that we expect to increase over time resulted in a decrease in new business value that caused the fair value of the life insurance reporting unit to be below its book value with the amount of implied goodwill being lower than the recorded goodwill balance. Based on the fair

value of projected new business for our life insurance reporting unit, we recorded a goodwill impairment of $350 million during the third quarter of 2014, with the remaining goodwill balance of $145 million deemed recoverable based on our

determination of implied goodwill. Decreases in projected new business volume as well as changes in market conditions, new business product mix, or regulatory environment could have a significant adverse impact on our new business value and could result in recognizing additional impairments to goodwill in the future.

For the first half of 2014, overall market sales for the long-term care insurance industry declined approximately 30% as compared to the same period last year. During the third quarter of 2014, we introduced a new long-term care insurance product with higher premiums and lower maximum benefits, and anticipate that it will take time for this new product to gain momentum in our distribution channels. Given these trends, our annual sales projections included in our determination of fair value for our long-term care insurance reporting unit were lower than the prior year s goodwill testing analysis. In our current goodwill testing analysis, sales assumptions for individual long-term care insurance are expected to grow to $150 million over the first five years, as compared to our prior goodwill testing analysis as of September 30, 2013, which assumed sales would grow to $200 million over the same period. We are seeking to increase consumer awareness of long-term care needs, of our brand, and to expand the market, but we have not reflected significant growth from these potential actions in our current assumptions. In addition, our projection of new business includes a higher expected use of reinsurance and a change related to expected claims costs that resulted in a decrease in value compared to the prior year s goodwill testing valuation. The impact of these assumptions on our sales projections caused the fair value of our long-term care insurance reporting unit to be below its book value with the amount of implied goodwill being lower than the recorded goodwill balance. Based on the fair value of projected new business for our long-term care insurance reporting unit, we recorded a goodwill impairment of $200 million during the third quarter of 2014, with the remaining goodwill balance of $154 million deemed recoverable based on our determination of implied goodwill. Decreases in projected new business volume, new product profitability, policyholder behavior assumptions, and the amount of reinsurance on new business could have a significant adverse impact on our new business value and could result in recognizing additional impairments to goodwill in the future.

See note 14 in our condensed consolidated financial statements under Item 1 Financial Statements for additional information related to goodwill.

Insurance liabilities and reserves. We calculate and maintain reserves for the estimated future payment of claims to our policyholders and contractholders based on actuarial assumptions and in accordance with industry practice and applicable accounting and regulatory requirements. Many factors can affect these reserves, including, but not limited to, interest rates, economic and social conditions, mortality and morbidity trends, inflation, healthcare experience, changes in doctrines of legal liability and damage awards in litigation. Therefore, the reserves we establish are necessarily based on estimates, assumptions and our analysis of historical experience. Our results depend significantly upon the extent to which our actual experience is consistent with the assumptions we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments.

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

The liability for policy and contract claims, also known as claim reserves, for our long-term care insurance products represents the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events

that have occurred on or before the end of the respective reporting period. In addition, where circumstances warrant, we change our actuarial assumptions based on our monitoring of actual experience. The methods of determining such estimates and establishing the reserves are reviewed regularly and any adjustments

are reflected in operations in the period in which they become known. During the third quarter of 2014, we completed a comprehensive review of our long-term care insurance claim reserves conducted over the past few months. This review was commenced as a result of adverse claims experience during the second quarter of 2014 and in connection with our regular review of our claim reserve assumptions during the third quarter of each year. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. As a result of these changes, we increased our long-term care insurance claim reserves by $604 million, before reinsurance, during the third quarter of 2014.

The liability for future policy benefits of our long-term care insurance products represents the present value of such future benefits, less the present value of future net premiums based on assumptions as to future interest rates, lapse, mortality, morbidity and other factors, which are determined and locked-in during the year the policies are issued. These reserves are evaluated for potential reserve deficiencies as a part of our active life margin review using current assumptions in the aggregate, except for the purchased block of long-term care insurance products that are separately evaluated as a part of PVFP recoverability testing. When we performed our testing as of December 31, 2013, the assumptions that had the most significant impact on our margins were morbidity, lapse rates, in-force rate increases and discount rate. At that time we determined our long-term care insurance net U.S. GAAP liability was sufficient with a loss recognition testing margin, also referred to as the active life margin, in the aggregate of approximately $3.2 billion as of December 31, 2013. As noted above, related to our discussion of our liability for policy and contract claims, we have recently completed a comprehensive review of our long-term care insurance claim reserves. Due to the timing of the completion of the comprehensive review of our long-term care insurance claim reserves, and the complexity of the calculation of margins, we will review the applicability of any claim reserve assumptions and methodologies that changed during that review and incorporate them, as appropriate, as part of our active life margin review that is expected to be completed during the fourth quarter of 2014. We expect these changes will materially reduce our active life margins. However, we are also developing management actions (including developing assumptions for our expected premium increases and other items, which will consider, where applicable, our assessment of expected regulatory approvals of these items) and will include our best estimate of the impact of these items in our loss recognition and related recoverability testing, which we expect will offset much, or possibly most, of the reduction on margins for our long-term care insurance business from the claim reserves review. We may also make changes to other loss recognition testing and recoverability assumptions and methodologies (including related to morbidity, interest rates, lapse and mortality, among others), but we currently cannot predict with more specificity the nature, extent or margin impact of any assumption and methodology changes we may make in completing our annual margin review and recoverability testing, and such changes could require us to amortize more DAC and/or establish additional benefit reserves, the impact of which may or may not be material.

Table of Contents

Consolidated Results of Operations

The following is a discussion of our consolidated results of operations and should be read in conjunction with Business trends and conditions. For a discussion of our segment results, see Results of Operations and Selected Financial and Operating Performance Measures by Segment.

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

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

(Amounts in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 1,395	$ 1,291	$ 104	8%
Net investment income	805	801	4	%
Net investment gains (losses)	(27)	(23)	(4)	(17)%
Insurance and investment product fees and other	231	248	(17)	(7)%
Total revenues	2,404	2,317	87	4%
Benefits and expenses:				
Benefits and other changes in policy reserves	1,986	1,169	817	70%
Interest credited	185	184	1	1%
Acquisition and operating expenses, net of deferrals	398	407	(9)	(2)%
Amortization of deferred acquisition costs and intangibles	143	182	(39)	(21)%
Goodwill impairment	550		550	NM[(1)]
Interest expense	114	124	(10)	(8)%
Total benefits and expenses	3,376	2,066	1,310	63%
Income (loss) from continuing operations before income taxes	(972)	251	(1,223)	NM[(1)]
Provision (benefit) for income taxes	(185)	105	(290)	NM[(1)]
Income (loss) from continuing operations	(787)	146	(933)	NM[(1)]
Income from discontinued operations, net of taxes		2	(2)	(100)%
Net income (loss)	(787)	148	(935)	NM[(1)]
Less: net income attributable to noncontrolling interests	57	40	17	43%
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (844)	$ 108	$ (952)	NM[(1)]

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

Premiums. Premiums consist primarily of premiums earned on insurance products for life, long-term care and accident and health insurance, single premium immediate annuities and structured settlements with life contingencies, lifestyle protection insurance and mortgage insurance.

Our U.S. Life Insurance segment increased $70 million. Our life insurance business increased $27 million primarily related to our term life insurance products due to the recapture of a reinsurance agreement in the current year. Our long-term care insurance business increased $23 million largely from $22 million of increased premiums from in-force rate actions in the current year. Our fixed annuities business increased $20 million principally from higher sales of our life-contingent products in the current year.

Our International Protection segment increased $26 million, including an increase of $4 million attributable to changes in foreign exchange rates, primarily due to $14 million of premiums driven by an amendment to a reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting and higher volume driven by growth in France from a new distributor in the current year. These increases were partially offset by lower premiums from our runoff clients.

Table of Contents

Our U.S. Mortgage Insurance segment increased $9 million mainly attributable to higher average flow insurance in-force in the current year.

Net investment income. Net investment income represents the income earned on our investments. Annualized weighted-average investment yields were 4.6% and 4.7% for the three months ended September 30, 2014 and 2013, respectively. Annualized weighted-average investment yields decreased primarily attributable to lower reinvestment yields on higher average invested assets and a $22 million unfavorable prepayment speed adjustment on structured securities in the current year.

Net investment gains (losses). Net investment gains (losses) consist primarily of realized gains and losses from the sale or impairment of our investments and unrealized and realized gains and losses from our trading securities and derivative instruments. For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

We recorded $6 million and $5 million of net other-than-temporary impairments during the three months ended September 30, 2014 and 2013, respectively. We recorded $4 million of impairments related to financial hybrid securities as a result of certain banks which were downgraded below investment grade during the three months ended September 30, 2014. Of total impairments during the three months ended September 30, 2014 and 2013, $1 million and $3 million, respectively, related to structured securities.

Net investment losses related to derivatives of $38 million during the three months ended September 30, 2014 were primarily associated with guaranteed minimum withdrawal benefit (GMWB) losses, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with assets held, as well as losses related to derivatives used to hedge our fixed indexed annuity product. These losses were partially offset by gains related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries. Net investment losses related to derivatives of $19 million during the three months ended September 30, 2013 were primarily associated with GMWB losses due to annual actuarial unlocking related to lapse and mortality assumption adjustments. In addition, there were losses related to derivatives used to hedge foreign currency risk associated with near-term expected dividend payments from certain subsidiaries. These losses were partially offset by gains driven by tightening credit spreads on credit default swaps where we sold protection to improve diversification and portfolio yield.

We recorded net gains of $12 million related to the sale of available-for-sale securities during the three months ended September 30, 2014 compared to net losses of $12 million during the three months ended September 30, 2013. We recorded $4 million of gains related to trading securities during the three months ended September 30, 2014 compared to $6 million of losses during the three months ended September 30, 2013 due to higher unrealized gains resulting from changes in the long-term interest rate environment. We also recorded a loss of $1 million related to securitization entities during the three months ended September 30, 2014 compared to $21 million of gains during the three months ended September 30, 2013 primarily associated with derivatives.

Insurance and investment product fees and other. Insurance and investment product fees and other consist primarily of fees assessed against policyholder and contractholder account values, surrender charges, cost of insurance assessed on universal and term universal life insurance policies, advisory and administration service fees assessed on investment contractholder account values, broker/dealer commission revenues and other fees.

Our U.S. Life Insurance segment decreased $6 million predominantly from our life insurance business largely related to our term universal life insurance product driven mostly by lower life insurance in-force as we no longer offer this product. In our universal life insurance products, a less favorable unlocking of $7 million related to interest assumptions was offset by higher account values and surrender fees in the current year.

Our International Mortgage Insurance segment decreased $6 million primarily due to non-functional currency transactions attributable to changes in foreign exchange rates on intercompany loans related to our Australian mortgage insurance business in the current year.

Corporate and Other activities decreased $5 million attributable to losses in the current year from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions compared to gains in the prior year.

Benefits and other changes in policy reserves. Benefits and other changes in policy reserves consist primarily of benefits paid and reserve activity related to current claims and future policy benefits on insurance and investment products for life, long-term care and accident and health insurance, structured settlements and single premium immediate annuities with life contingencies, lifestyle protection insurance and claim costs incurred related to mortgage insurance products.

Our U.S. Life Insurance segment increased $798 million. Our long-term care insurance business increased $654 million principally from a $531 million increase in claim reserves, net of reinsurance, primarily related to the completion of a comprehensive review of our claim reserves conducted over the past few months. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. During the third quarter of 2014, we also recorded a $54 million unfavorable correction, net of reinsurance, related to a calculation of benefit utilization for policies with a benefit inflation option. The increase was also attributable to aging and growth of the in-force block, higher severity and frequency on new claims and higher benefits paid on existing claims, partially offset by $13 million of reduced benefits from in-force rate actions in the current year. Our life insurance business increased $133 million primarily related to a less favorable unlocking of $47 million in our term universal and universal life insurance products related to mortality and interest assumptions and unfavorable mortality in our term and universal life insurance products in the current year, as well as a $28 million favorable reserve correction in our term universal life insurance product in the prior year that did not recur. The increase was also attributable to the recapture of a reinsurance agreement related to our term life insurance products, partially offset by lapses of older term life insurance policies in the current year. Our fixed annuities business increased $11 million largely attributable to higher sales of our life-contingent products, partially offset by lower interest credited on reserves in the current year.

Our U.S. Mortgage Insurance segment increased $18 million primarily from an aggregate increase in our claim reserves in the current year of $53 million in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities in the current year. The increase was also attributable to less favorable net cures and aging on existing delinquencies, partially offset by fewer new delinquencies, as well as lower reserves on new delinquencies in the current year.

Our International Protection segment increased $12 million, including an increase of $2 million attributable to changes in foreign exchange rates, primarily due to higher reserves in France from a new distributor in the current year. The increase was also attributable to $3 million of higher benefits related to an amendment to a

reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting, partially offset by a decline in new claim registrations in the current year.

Our Runoff segment increased $4 million primarily attributable to an increase in our guaranteed minimum death benefit (GMDB) reserves in our variable annuity products due to less favorable equity market performance in the current year.

Our International Mortgage Insurance segment decreased $15 million, including a decrease of $1 million attributable to changes in foreign exchange rates. In Australia, losses decreased $7 million primarily driven by lower paid claims in the current year as a result of a decrease in both the number of claims and the average claim payment. This decrease was partially offset by higher losses from aging

on our existing delinquencies from a lower cure rate in the current year. Other Countries decreased $6 million primarily from lender settlements in the prior year, a lower number of new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year. In Canada, losses decreased $2 million primarily driven by lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year and lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher.

Interest credited. Interest credited represents interest credited on behalf of policyholder and contractholder general account balances.

Acquisition and operating expenses, net of deferrals. Acquisition and operating expenses, net of deferrals, represent costs and expenses related to the acquisition and ongoing maintenance of insurance and investment contracts, including commissions, policy issuance expenses and other underwriting and general operating costs. These costs and expenses are net of amounts that are capitalized and deferred, which are costs and expenses that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts, such as first-year commissions in excess of ultimate renewal commissions and other policy issuance expenses.

Corporate and Other activities decreased $39 million primarily attributable to $30 million of make-whole expenses paid related to the debt redemption in the prior year that did not recur and lower net expenses after allocations to our operating segments in the current year.

Our U.S. Life Insurance segment increased $19 million primarily attributable to an increase in our long-term care insurance business of $13 million related to growth of our in-force block and from higher marketing costs in the current year. Our life insurance business increased $5 million related to an unfavorable adjustment to reflect lower deferrals on our term universal life insurance product that we no longer offer.

Our International Protection segment increased $11 million, including an increase of $3 million attributable to changes in foreign exchange rates, due to higher commissions of $9 million related to an amendment to a reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting. This increase was also attributable to higher profit sharing expenses in the current year.

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

Our U.S. Life Insurance segment decreased $48 million predominantly related to a decrease in our life insurance business of $42 million largely from a less unfavorable unlocking of $47 million in our term universal and universal life insurance products related to mortality and interest assumptions, partially offset by higher lapses in our term life insurance products in the current year. Our long-term care insurance business decreased $6 million largely related to a $4 million unfavorable adjustment primarily related to the continuation of a multi-stage system conversion in the prior year that did not recur.

Our International Protection segment increased $5 million as a result of higher premium volume in the current year.

Our Runoff segment increased $3 million principally related to our variable annuity products principally from less favorable equity market performance, partially offset by the impacts associated with our annual review of assumptions, which included a $7 million favorable unlocking in the current year compared to a $4 million unfavorable unlocking in the prior year.

Goodwill impairment. Charges for impairment of goodwill are as a result of declines in the fair value of the reporting units. The goodwill impairment charges in the third quarter of 2014 were $350 million in our life insurance business and $200 million in our long-term care insurance business.

Table of Contents

Interest expense. Interest expense represents interest related to our borrowings that are incurred at Genworth Holdings or subsidiaries and our non-recourse funding obligations and interest expense related to the Tax Matters Agreement and certain reinsurance arrangements being accounted for as deposits.

Corporate and Other activities decreased $7 million largely driven by the repayment of $485 million of senior notes in June 2014 and the repurchase of $350 million of senior notes in August 2013, partially offset by debt issuances in August and December of 2013.

Our U.S. Life Insurance segment decreased $3 million driven by our life insurance business principally related to lower financing fees in the current year.

Provision (benefit) for income taxes. The effective tax rate decreased to 19.0% for the three months ended September 30, 2014 from 41.8% for the three months ended September 30, 2013. The decrease in the effective tax rate was primarily attributable to non-deductible goodwill impairments in the current year. The decrease in the effective tax rate was also attributable mainly to two specific items from the prior year: additional tax expense related to non-deductible stock compensation expense as a result of cancellations and a valuation allowance on a deferred tax asset on a specific separate tax return net operating loss that was no longer expected to be realized.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests represents the portion of income in a subsidiary attributable to third parties. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $23 million in the current year. The three months ended September 30, 2014 included a decrease of $2 million attributable to changes in foreign exchange rates.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We had a net loss available to Genworth Financial, Inc. s common stockholders in the current year compared to net income available to Genworth Financial, Inc. s common stockholders in the prior year primarily driven by an increase of $345 million in claim reserves, net of reinsurance, for our long-term care insurance business related to the completion of a review of our claim reserves. During the third quarter of 2014, we also recorded a $35 million unfavorable correction, net of reinsurance, related to a calculation of benefit utilization for policies with a benefit inflation option in our long-term care insurance business and goodwill impairments of $517 million in our U.S. Life Insurance segment. There were also an aggregate increase in our claim reserves in the current year of $34 million in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities in our U.S. mortgage insurance business. The current year also included a decrease of $23 million attributable to the IPO of 33.8% of our Australian mortgage insurance business. These decreases were partially offset by lower new delinquencies in our international mortgage insurance business, higher premiums, higher tax benefits and $21 million of increased premiums and reduced benefits from in-force rate actions in our long-term care insurance business in the current year. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in the net loss available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2014 was a decrease of $1 million, net of taxes, attributable to changes in foreign exchange rates.

Table of Contents

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

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

(Amounts in millions)	Nine months ended September 30, 2014	2013	Increase (decrease) and percentage change 2014 vs. 2013	
Revenues:				
Premiums	$ 4,045	$ 3,838	$ 207	5%
Net investment income	2,423	2,436	(13)	(1)%
Net investment gains (losses)	(10)	(63)	53	84%
Insurance and investment product fees and other	683	780	(97)	(12)%
Total revenues	7,141	6,991	150	2%
Benefits and expenses:				
Benefits and other changes in policy reserves	4,436	3,639	797	22%
Interest credited	552	552		%
Acquisition and operating expenses, net of deferrals	1,180	1,253	(73)	(6)%
Amortization of deferred acquisition costs and intangibles	415	441	(26)	(6)%
Goodwill impairment	550		550	NM[1]
Interest expense	361	371	(10)	(3)%
Total benefits and expenses	7,494	6,256	1,238	20%
Income (loss) from continuing operations before income taxes	(353)	735	(1,088)	(148)%
Provision (benefit) for income taxes	(13)	254	(267)	(105)%
Income (loss) from continuing operations	(340)	481	(821)	(171)%
Loss from discontinued operations, net of taxes		(12)	12	100%
Net income (loss)	(340)	469	(809)	(172)%
Less: net income attributable to noncontrolling interests	144	117	27	23%
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (484)	$ 352	$ (836)	NM[1]

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

Premiums

Our U.S. Life Insurance segment increased $146 million. Our long-term care insurance business increased $102 million largely from $69 million of increased premiums from in-force rate actions and growth of our in-force block from new sales in the current year and $14 million of unfavorable adjustments in the prior year that did not recur. Our life insurance business increased $27 million primarily related to our term life insurance products due to the recapture of a reinsurance agreement in the current year. Our fixed annuities business increased $17 million principally from higher sales of our life-contingent products in the current year.

Our International Protection segment increased $81 million, including an increase of $17 million attributable to changes in foreign exchange rates, from $41 million of higher premiums primarily driven by an amendment to a reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting. The increase in the current year was also attributable to higher volume driven by a new distributor in France and a favorable adjustment of $4 million related to German premium taxes, partially offset by lower premiums from our runoff clients in the current year.

Our U.S. Mortgage Insurance segment increased $15 million mainly attributable to higher average flow insurance in-force and lower ceded reinsurance premiums in the current year.

Our International Mortgage Insurance segment decreased $34 million, including a decrease of $52 million attributable to changes in foreign exchange rates. Excluding the impacts of foreign

exchange, premiums increased mainly driven by an increase in Australia of $4 million, including a decrease of $25 million attributable to changes in foreign exchange rates, primarily as a result of the seasoning of our in-force block of business as larger, newer books reach their peak earnings period. The increase was also attributable to higher premiums resulting from higher policy cancellations and new insurance written, partially offset by higher ceded reinsurance premiums in the current year. Our Canadian mortgage insurance business decreased $35 million, including a decrease of $27 million attributable to changes in foreign exchange rates, primarily driven by the smaller 2010 and subsequent in-force blocks of business. Other Countries decreased $3 million primarily as a result of lower premiums attributable to lender settlements in the prior year, the seasoning of our in-force block of business and higher ceded reinsurance premiums in the current year.

Net investment income

Annualized weighted-average investment yields were 4.6% and 4.7% for the nine months ended September 30, 2014 and 2013, respectively. Annualized weighted-average investment yields decreased primarily attributable to lower reinvestment yields on higher average invested assets, a $22 million unfavorable prepayment speed adjustment on structured securities and $5 million of lower gains related to bond calls and mortgage loan prepayments. These decreases were partially offset by $18 million of higher gains related to limited partnerships in the current year.

The nine months ended September 30, 2014 included a decrease of $14 million attributable to changes in foreign exchange rates.

Net investment gains (losses). For further discussion of the change in net investment gains (losses), see the comparison for this line item under Investments and Derivative Instruments.

We recorded $9 million and $22 million of net other-than-temporary impairments during the nine months ended September 30, 2014 and 2013, respectively. Of total impairments during the nine months ended September 30, 2014 and 2013, $2 million and $12 million, respectively, related to structured securities, including $1 million and $5 million, respectively, related to sub-prime and Alt-A residential mortgage-backed and asset-backed securities. Impairments related to financial hybrid securities as a result of certain banks being downgraded to below investment grade were $4 million during the nine months ended September 30, 2014. Impairments related to corporate securities as a result of bankruptcies, receivership or concerns about the issuer s ability to continue to make contractual payments or where we have intent to sell were $6 million during the nine months ended September 30, 2013.

Net investment losses related to derivatives of $66 million during the nine months ended September 30, 2014 were primarily associated with GMWB losses, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with assets held and proceeds from the IPO of our Australian mortgage insurance business and losses related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions. These losses were partially offset by gains related to hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to a decrease in long-term interest rates. We also had gains related to derivatives used to hedge foreign currency

risk associated with expected dividend payments from certain foreign subsidiaries. Net investment losses related to derivatives of $63 million during the nine months ended September 30, 2013 were primarily associated with GMWB losses due to annual actuarial unlocking related to lapse and mortality assumption adjustments, decreases in the values of instruments used to protect statutory surplus from declines in equity markets and policyholder funds underperforming as compared to market indices. In addition, there were losses related to hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to an increase in long-term interest rates. These losses were partially offset by gains driven by tightening

credit spreads on credit default swaps where we sold protection to improve diversification and portfolio yield, as well as gains related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions.

We recorded net gains of $20 million related to the sale of available-for-sale securities during the nine months ended September 30, 2014 compared to net losses of $7 million during the nine months ended September 30, 2013. The nine months ended September 30, 2014 included a gain on a previously impaired financial hybrid security that was called by the issuer in the current year. We recorded $24 million of gains related to trading securities during the nine months ended September 30, 2014 compared to $15 million of losses during the nine months ended September 30, 2013 due to higher unrealized gains resulting from changes in the long-term interest rate environment. We recorded $29 million of lower net gains related to securitization entities during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily related to lower gains on derivatives, partially offset by gains on trading securities in the current year compared to losses in the prior year.

Insurance and investment product fees and other

Corporate and Other activities decreased $48 million mainly attributable to the sale of our reverse mortgage business on April 1, 2013 and losses in the current year from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions compared to gains in the prior year.

Our U.S. Life Insurance segment decreased $38 million predominantly from our life insurance business related to mortality experience in our universal life insurance products, a less favorable unlocking of $7 million related to interest assumptions and a $4 million unfavorable correction in the current year.

Our International Mortgage Insurance segment decreased $8 million primarily due to non-functional currency transactions attributable to changes in foreign exchange rates on remeasurement and partial payments of intercompany loans related to our Australian mortgage insurance business in the current year.

Benefits and other changes in policy reserves

Our U.S. Life Insurance segment increased $900 million. Our long-term care insurance business increased $762 million principally from a $531 million increase in claim reserves, net of reinsurance, primarily related to the completion of a comprehensive review of our claim reserves conducted over the past few months. As a result of this review, we made changes to our assumptions and methodologies primarily impacting claim terminations, most significantly in later-duration claims, and benefit utilization reflecting that claimants are staying on claim longer and utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. During the third quarter of 2014, we also recorded a $54 million unfavorable correction, net of reinsurance, related to a calculation of benefit utilization for policies with a benefit inflation option. The increase was also attributable to aging and growth of the in-force block, higher severity and frequency on new claims, higher benefits paid on existing claims and $24 million of net favorable adjustments in the prior year that did not recur. These increases were partially offset by reduced

benefits of $85 million from in-force rate actions in the current year. Our life insurance business increased $127 million primarily related to a less favorable unlocking of $47 million in our term universal and universal life insurance products related to mortality and interest assumptions, unfavorable mortality in our term and universal life insurance products in the current year, as well as a $28 million favorable reserve correction in our term universal life insurance product in the prior year that did not recur. The increase was also attributable to the recapture of a reinsurance agreement related to our term life insurance products in the current year. These increases were partially offset by slower reserve growth related to our term universal life insurance reserves and higher lapses of our older term life insurance policies in the

current year. Our fixed annuities business increased $11 million predominantly from higher sales of our life-contingent products and unfavorable mortality, partially offset by lower interest credited on reserves in the current year.

Our International Protection segment increased $34 million, including an increase of $6 million attributable to changes in foreign exchange rates, primarily driven by $11 million of higher benefits related to an amendment to a reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting. The increase was also driven by higher reserves in France from a new distributor, higher favorable claim reserve adjustments in the prior year and higher claims of $3 million related to the ferry disaster in Korea, partially offset by a decline in new claim registrations in the current year.

Our International Mortgage Insurance segment decreased $103 million, including a decrease of $9 million attributable to changes in foreign exchange rates. In Australia, losses decreased $50 million primarily driven by improved aging on our existing delinquencies from higher home price appreciation and a lower volume of existing delinquencies converting to mortgages in possession, as well as a lower number of new delinquencies in the current year. Paid claims also decreased in the current year as a result of a decrease in both the number of claims and the average claim payment. In Canada, losses decreased $40 million primarily driven by lower losses incurred as a result of improved performance of our newer in-force blocks of business in the current year and lower severity of claims due to a higher proportion of delinquencies in provinces where severity has been lower and home price appreciation has been higher. Other Countries decreased $13 million primarily from lender settlements in the prior year, a lower number of new delinquencies, net of cures, and improved aging on our existing delinquencies in the current year.

Our U.S. Mortgage Insurance segment decreased $38 million primarily driven by a decline in new delinquencies, as well as lower reserves on new delinquencies in the current year. These decreases were partially offset by an aggregate increase in our claim reserves in the current year of $53 million in connection with the settlement agreement with Bank of America, N.A. and discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities. In addition, we recorded a net reserve strengthening of $17 million in the first quarter of 2014 to reflect the expectation in future periods of increased claim severity primarily for late-stage delinquencies, partially offset by lower claim rates for early-stage delinquencies. Overall delinquencies continued to decline from factors such as increased cure rates resulting from improvements in the overall housing market, fewer new delinquencies and ongoing loss mitigation efforts.

Acquisition and operating expenses, net of deferrals

Corporate and Other activities decreased $81 million primarily as a result of a decrease of $46 million associated with our reverse mortgage business which was sold on April 1, 2013, $30 million from make-whole expenses paid related to the debt redemption in the prior year that did not recur and lower net expenses after allocations to our operating segments in the current year.

Our International Mortgage Insurance segment decreased $9 million, including a decrease of $8 million attributable to changes in foreign exchange rates. Our Australian mortgage insurance business decreased $9 million primarily from lower operating expenses related to contract fees. Other Countries decreased $3 million primarily from lower operating expenses in the current year and a restructuring charge of $1 million in the prior year that did not recur. These decreases were partially offset by a $3 million increase in Canada primarily from an early redemption payment of $6 million in May 2014 related to the redemption of Genworth MI Canada Inc. s (Genworth Canada) senior notes that were scheduled to mature in 2015 and higher employee compensation and benefit expenses, partially offset by lower expenses related to employee stock options from a decrease in Genworth Canada s share price in the current year.

Table of Contents

Our U.S. Mortgage Insurance segment decreased $7 million primarily from a settlement of approximately $4 million with the CFPB to end its review of industry captive reinsurance arrangements in the prior year that did not recur and lower operating expenses in the current year.

Our International Protection segment increased $26 million, including an increase of $12 million attributable to changes in foreign exchange rates, driven by higher commissions of $26 million related to an amendment to a reinsurance agreement in the current year that was previously accounted for under the deposit method of accounting. The increase was partially offset by lower operating expenses in the current year and a restructuring charge of $4 million in the prior year that did not recur.

Amortization of deferred acquisition costs and intangibles

Our U.S. Life Insurance segment decreased $59 million mainly related to a decrease of $57 million in our life insurance business largely from a less unfavorable unlocking of $47 million in our term universal and universal life insurance products related to mortality and interest assumptions and from mortality experience in our universal life insurance products, partially offset by higher lapses in our term life insurance products in the current year.

Corporate and Other activities decreased $6 million mainly related to higher software allocations to our operating segments in the current year.

Our Runoff segment increased $29 million related to our variable annuity products primarily from lower net investment losses and less favorable equity market performance, partially offset by the impacts associated with our annual review of assumptions, which included a $7 million favorable unlocking in the current year compared to a $4 million unfavorable unlocking in the prior year.

Our International Protection segment increased $11 million, including an increase of $2 million attributable to changes in foreign exchange rates, mainly as a result of higher premium volume in the current year.

Goodwill impairment. The goodwill impairment charges in the third quarter of 2014 were $350 million in our life insurance business and $200 million in our long-term care insurance business.

Interest expense. Our U.S. Life Insurance segment decreased $8 million as a result of our life insurance business principally related to lower financing fees in the current year.

Provision (benefit) for income taxes. The effective tax rate decreased to 3.7% for the nine months ended September 30, 2014 from 34.6% for the nine months ended September 30, 2013. The decrease in the effective tax rate was primarily attributable to non-deductible goodwill impairments in the current year. The nine months ended September 30, 2014 included a decrease of $11 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. The increase primarily related to the IPO of our Australian mortgage insurance business in May 2014, which reduced our ownership percentage to 66.2%, resulting in lower net income of $34 million in the current year. The nine months ended September 30, 2014 included a decrease of $9 million attributable to changes in foreign exchange rates.

Net income (loss) available to Genworth Financial, Inc. s common stockholders. We had a net loss available to Genworth Financial, Inc. s common stockholders in the current year compared to net income available to Genworth Financial, Inc. s common stockholders in the prior year primarily driven by an increase of $345 million in claim reserves, net of reinsurance, for our long-term care insurance business related to the completion of a review of our claim reserves. During the third quarter of 2014, we also recorded a $35 million unfavorable correction, net of reinsurance, related to a calculation of benefit utilization for policies with a benefit inflation option in our long-term care insurance business and goodwill impairments of $517 million in our U.S. Life Insurance segment. The decrease was also attributable to an aggregate increase in our claim reserves in the current year of $34 million in connection with the settlement agreement with Bank of America, N.A. and

discussions with another servicer in an effort to resolve pending disputes over loss mitigation activities. The current year also included a decrease of $34 million attributable to the IPO of 33.8% of our Australian mortgage insurance business. The prior year also included a loss of $12 million from discontinued operations, net of taxes, related to the sale of our wealth management business that was sold in August 2013. These decreases were partially offset by $96 million of increased premiums and reduced benefits from in-force rate actions in our long-term care insurance business in the current year and a $13 million restructuring charge in the prior year that did not recur. For a discussion of each of our segments and Corporate and Other activities, see the Results of Operations and Selected Financial and Operating Performance Measures by Segment. Included in the net loss available to Genworth Financial, Inc. s common stockholders for the nine months ended September 30, 2014 was a decrease of $28 million, net of taxes, attributable to changes in foreign exchange rates.

Reconciliation of net income (loss) to net operating income (loss)

We had a net operating loss for the three months ended September 30, 2014 of $317 million compared to net operating income of $139 million for the three months ended September 30, 2013. Net operating income for the nine months ended September 30, 2014 was $35 million compared to $423 million for the nine months ended September 30, 2013. We define net operating income (loss) as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions and infrequent or unusual non-operating items. Gains (losses) on insurance block transactions are defined as gains (losses) on the early extinguishment of non-recourse funding obligations, early termination fees for other financing restructuring and/or resulting gains (losses) on reinsurance restructuring for certain blocks of business. We exclude net investment gains (losses) and infrequent or unusual non-operating items because we do not consider them to be related to the operating performance of our segments and Corporate and Other activities. A component of our net investment gains (losses) is the result of impairments, the size and timing of which can vary significantly depending on market credit cycles. In addition, the size and timing of other investment gains (losses) can be subject to our discretion and are influenced by market opportunities, as well as asset-liability matching considerations. Goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions are also excluded from net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Other non-operating items are also excluded from net operating income (loss) if, in our opinion, they are not indicative of overall operating trends.

In the fourth quarter of 2013, we revised our definition of net operating income (loss) to exclude gains (losses) on the early extinguishment of debt and gains (losses) on insurance block transactions to better reflect the basis on which the performance of our business is internally assessed and to reflect management s opinion that they are not indicative of overall operating trends. All prior periods have been re-presented to reflect this new definition.

In the third quarter of 2014, we recorded goodwill impairments of $350 million, net of taxes, in our life insurance business and $167 million, net of taxes, in our long-term care insurance business.

The following transactions were excluded from net operating income (loss) for the periods presented as they related to the loss on the early extinguishment of debt. In the second quarter of 2014, we paid an early redemption payment of approximately $2 million, net of taxes and portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada s notes that were scheduled to mature in 2015. In the third quarter of 2013, we paid a make-whole expense of approximately $20 million, net of taxes, related to the early redemption of Genworth Holding s notes that were scheduled to mature in 2015.

There were no infrequent or unusual items excluded from net operating income (loss) during the periods presented other than a $13 million, net of taxes, expense recorded in the second quarter of 2013 related to restructuring costs.

Table of Contents

While some of these items may be significant components of net income available to Genworth Financial, Inc. s common stockholders in accordance with U.S. GAAP, we believe that net operating income, and measures that are derived from or incorporate net operating income, are appropriate measures that are useful to investors because they identify the income (loss) attributable to the ongoing operations of the business. Management also uses net operating income as a basis for determining awards and compensation for senior management and to evaluate performance on a basis comparable to that used by analysts. However, the items excluded from net operating income have occurred in the past and could, and in some cases will, recur in the future. Net operating income is not a substitute for net income available to Genworth Financial, Inc. s common stockholders determined in accordance with U.S. GAAP. In addition, our definition of net operating income may differ from the definitions used by other companies.

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

The following table includes a reconciliation of net income (loss) to net operating income (loss) for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions)	**2014**	**2013**	**2014**	**2013**
Net income (loss)	$ (787)	$ 148	$ (340)	$ 469
Less: net income attributable to noncontrolling interests	57	40	144	117
Net income (loss) available to Genworth Financial, Inc. s common stockholders	(844)	108	(484)	352
Adjustments to net income (loss) available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net	10	13		26
Goodwill impairment, net	517		517	
(Gains) losses on early extinguishment of debt, net		20	2	20
Expenses related to restructuring, net				13
(Income) loss from discontinued operations, net of taxes		(2)		12
Net operating income (loss)	$ (317)	$ 139	$ 35	$ 423

Earnings (loss) per share

The following table provides basic and diluted net income (loss) available to Genworth Financial, Inc. s common stockholders and net operating income (loss) per common share for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(Amounts in millions, except per share amounts)	**2014**	**2013**	**2014**	**2013**

Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ (1.70)	$ 0.21	$ (0.98)	$ 0.74
Diluted	$ (1.70)	$ 0.21	$ (0.98)	$ 0.73

Table of Contents

(Amounts in millions, except per share amounts)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ (1.70)	$ 0.22	$ (0.98)	$ 0.71
Diluted	$ (1.70)	$ 0.22	$ (0.98)	$ 0.71
Net operating income (loss) per common share:				
Basic	$ (0.64)	$ 0.28	$ 0.07	