Brookdale Senior Living Inc.
Form 4
March 09, 2007

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

## STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
| Expires: | January 31, 2005 |
| Estimated average burden hours per response... | 0.5 |

(Print or Type Responses)

1. Name and Address of Reporting Person *
BUMSTEAD FRANK M

(Last) (First) (Middle)

1700 HAYES STREET, SUITE 304

(Street)

NASHVILLE, TN 37203

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Brookdale Senior Living Inc. [BKD]

3. Date of Earliest Transaction (Month/Day/Year)
03/07/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 03/07/2007 | | A | | 333 | A | $ 0 | 13,292 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

## Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| BUMSTEAD FRANK M<br>1700 HAYES STREET<br>SUITE 304<br>NASHVILLE, TN 37203 | X | | | |

## Signatures

| /s/ Frank M. Bumstead | 03/09/2007 |
|---|---|
| **Signature of Reporting Person | Date |

## Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. "bottom"> 123% (116) NM(1)

Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders

| | | | | | | |
|---|---|---|---|---|---|---|
| $(215) | $43 | $(641) | $(258) | NM[1] | $684 | 107% |

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

(2) For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(5) million, $(15) million and $(1) million, respectively.

Table of Contents

The following table sets forth adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders for the businesses included in our U.S. Life Insurance segment for the periods indicated:

| (Amounts in millions) | Years ended December 31, 2016 | 2015 | 2014 | Increase (decrease) and percentage change 2016 vs. 2015 | | 2015 vs. 2014 | |
|---|---|---|---|---|---|---|---|
| Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | | | | | |
| Long-term care insurance | $ (200) | $ 29 | $ (815) | $ (229) | NM[(1)] | $ 844 | 104% |
| Life insurance | (83) | (80) | 74 | (3) | (4)% | (154) | NM[(1)] |
| Fixed annuities | 68 | 94 | 100 | (26) | (28)% | (6) | (6)% |
| Total adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (215) | $ 43 | $ (641) | $ (258) | NM[(1)] | $ 684 | 107% |

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

***2016 compared to 2015***

***Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders***

Our long-term care insurance business had an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of $200 million in 2016 compared to adjusted operating income available to Genworth Financial, Inc. s common stockholders of $29 million in 2015 largely related to the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $283 million. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates Liability for policy and contract claims for additional information). This decrease was partially offset by higher premiums and reduced benefits of $130 million in 2016 from in-force rate actions approved and implemented.

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders in our life insurance business increased $3 million principally from a higher unfavorable unlocking of $2 million in our universal and term universal life insurance products as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates for additional information).

Our fixed annuities business decreased $26 million largely related to loss recognition testing in our fixed immediate annuity products that resulted in a charge of $25 million mainly driven by the low interest rate environment in 2016 (see Critical Accounting Estimates Deferred acquisition costs/Future policy benefits for additional information).

***Revenues***

*Premiums*

Our long-term care insurance business increased $77 million principally from $125 million of increased premiums in 2016 from in-force rate actions approved and implemented, partially offset by policy terminations in 2016.

Our life insurance business decreased $517 million attributable to higher ceded reinsurance and lower sales in 2016. In the first quarter of 2016, we initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction.

Our fixed annuities business decreased $18 million principally from lower sales of our life-contingent products in 2016.

160

**Table of Contents**

*Net investment income*

Our long-term care insurance business increased $97 million largely from higher average invested assets due to growth of our in-force block and $13 million of higher income related to inflation-driven volatility on U.S. Government Treasury Inflation Protected Securities ( TIPS ) purchases, partially offset by lower reinvestment yields and $7 million of lower gains from bond calls and mortgage loan prepayments in 2016.

Our life insurance business decreased $11 million largely from lower average invested assets, partially offset by $5 million in net unfavorable prepayment speed adjustments on structured securities in 2015.

Our fixed annuities business decreased $61 million largely due to lower average invested assets, $10 million of lower gains from limited partnerships and $4 million of lower gains from bond calls and mortgage loan prepayments in 2016.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business increased $111 million primarily related to net gains of $130 million from the sale of TIPS, partially offset by lower derivative gains in 2016.

Net investment gains in our life insurance business increased $11 million predominantly attributable to lower impairments and higher gains on embedded derivatives related to our indexed universal life insurance products in 2016.

Net investment losses in our fixed annuities business decreased $16 million predominantly from lower net losses on embedded derivatives related to our fixed indexed annuities as well as lower net losses from the sale of investment securities, partially offset by higher impairments in 2016.

*Policy fees and other income*

Our life insurance business decreased $4 million predominantly from a less favorable unlocking of $6 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015.

Our fixed annuities business increased $4 million largely driven by higher surrender fee income in 2016.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business increased $565 million principally from the completion of our annual review of our claim reserves conducted during the third quarter of 2016 which resulted in higher claim reserves of $435 million, net of reinsurance. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves (see Critical Accounting Estimates Liability for policy and contract claims for additional information). The increase was also attributable to aging and growth of the in-force block, higher severity on new claims and $50 million of net unfavorable adjustments, which included refinements to the calculations of reserves in 2016. These increases were partially offset by reduced benefits of $85 million in 2016 related to in-force rate actions approved and implemented.

Our life insurance business decreased $380 million principally related to higher ceded reinsurance in 2016. In the first quarter of 2016, we initially ceded $331 million of certain term life insurance reserves under a new reinsurance treaty as part of a life block transaction. These decreases were partially offset by a higher unfavorable unlocking in our universal and term universal life insurance products of

161

Table of Contents

$21 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates Policyholder account balances for additional information).

Our fixed annuities business decreased $55 million largely attributable to $45 million of lower assumed reinsurance in connection with the recapture of certain life-contingent products by a third party in 2016. The decrease was also attributable to lower sales of our life-contingent products and lower interest credited in 2016. These decreases were partially offset by an increase in reserves of $24 million related to loss recognition testing in our fixed immediate annuity products primarily driven by the low interest rate environment (see Critical Accounting Estimates Future policy benefits for additional information).

*Interest credited*

Our life insurance business decreased $9 million predominantly from lower crediting rates in our universal life insurance products in 2016.

Our fixed annuities business decreased $22 million largely driven by a decline in average account values and lower crediting rates in 2016.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business decreased $38 million predominantly from lower sales and marketing costs in 2016.

Our life insurance business decreased $44 million primarily related to lower operating expenses attributable to a decline in sales, partially offset by $7 million of higher restructuring charges in 2016.

Our fixed annuities business increased $46 million largely attributable to a $55 million payment in connection with the recapture of certain life-contingent products by a third party, partially offset by lower operating expenses driven by a decline in sales in 2016.

*Amortization of deferred acquisition costs and intangibles*

Our life insurance business decreased $480 million principally from a DAC impairment of $455 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of a life block transaction that was finalized in the first quarter of 2016. The decrease was also attributable to a lower unfavorable unlocking in our universal and term universal life insurance products of $24 million as part of our annual review of assumptions in the fourth quarter of 2016 compared to 2015 (see Critical Accounting Estimates Deferred acquisition costs/Present value of future profits for additional information).

Our fixed annuities business increased $7 million predominantly related to the write-off of DAC in connection with loss recognition testing in our fixed immediate annuity products of $14 million driven primarily by the low interest rate environment in 2016 (see Critical Accounting Estimates Deferred acquisition costs for additional information). This increase was partially offset by a higher favorable unlocking of $7 million in 2016 driven by changes in lapse assumptions.

*Interest expense.* Interest expense decreased driven by our life insurance business principally as a result of the redemption of certain non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016 and lower letter of credit fees. These decreases were partially offset by the write-off of $9 million of deferred borrowing costs associated with our non-recourse funding obligations as part of a life block transaction and the impact of credit rating downgrades which increased the cost of financing term life insurance reserves in 2016.

*Benefit for income taxes.* The effective tax rate was 35.3% for the years ended December 31, 2016 and 2015.

162

Table of Contents

***2015 compared to 2014***

***Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders***

Our long-term care insurance business had adjusted operating income available to Genworth Financial, Inc. s common stockholders of $29 million in 2015 compared to an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of $815 million in 2014. The adjusted operating loss available to Genworth Financial, Inc. s common stockholders in 2014 was driven by our annual loss recognition testing in the fourth quarter of 2014 resulting in an increase of $478 million of reserves and amortization of PVFP and the completion of a comprehensive review of our claim reserves in the third quarter of 2014 resulting in increased claim reserves of $345 million. We also had $69 million of higher premiums and reduced benefits from in-force rate actions approved and implemented in 2015. These increases were partially offset by higher severity and frequency on new claims.

Our life insurance business had an adjusted operating loss available to Genworth Financial, Inc. s common stockholders of $80 million in 2015 compared to adjusted operating income available to Genworth Financial, Inc. s common stockholders of $74 million in 2014. The decrease was predominantly related to the completion of our annual review of assumptions in the fourth quarter of 2015, which resulted in $194 million of charges, which included $36 million of corrections related to reinsurance inputs, in our universal and term universal life insurance products. The updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements. These decreases were partially offset by our term life insurance products largely due to an unfavorable reserve correction of $32 million related to reserves on a reinsurance transaction in 2014 that did not recur and favorable mortality in 2015.

Our fixed annuities business decreased $6 million primarily related to lower investment income, partially offset by lower interest credited in 2015.

***Revenues***

*Premiums*

Our long-term care insurance business increased $101 million largely from $96 million of higher premiums in 2015 from in-force rate actions approved and implemented.

Our life insurance business decreased $52 million primarily related to higher ceded reinsurance, lapse experience and lower production in 2015.

Our fixed annuities business decreased $90 million principally from lower sales of our life-contingent products in 2015.

*Net investment income*

Our long-term care insurance business increased $107 million largely from higher average invested assets due to growth of our in-force block, higher gains of $12 million from bond calls and mortgage loan prepayments and an $8 million unfavorable prepayment speed adjustment on structured securities in 2014 that did not recur. These increases were partially offset by lower reinvestment yields.

Our life insurance business decreased $16 million largely from lower reinvestment yields and average invested assets in 2015.

163

Table of Contents

Our fixed annuities business decreased $55 million largely due to lower reinvestment yields and average invested assets. The decrease was also attributable to lower gains of $6 million from limited partnerships and a decrease of $4 million in bond calls and mortgage loan prepayments in 2015.

*Net investment gains (losses)*

Net investment gains in our long-term care insurance business increased $20 million largely from higher derivative gains, partially offset by net losses from the sale of investment securities in 2015 compared to net gains in 2014.

Net investment gains in our life insurance business decreased $21 million primarily from lower net gains from the sale of investment securities and higher impairments in 2015.

Net investment losses in our fixed annuities business increased $50 million largely related to derivative losses in 2015 compared to gains in 2014. The increase was also attributable to net losses from the sale of investment securities in 2015 compared to gains in 2014 and higher impairments, partially offset by lower losses on embedded derivatives related to our fixed indexed annuities in 2015.

*Policy fees and other income.* The increase was primarily attributable to our life insurance business largely related to our universal life insurance products driven by a $12 million favorable impact associated with the completion of our annual review of assumptions in the fourth quarter of 2015. The increase was also attributable to higher income from certain older universal life insurance in-force policies. These increases were partially offset by lower production, a decrease in our term universal and universal life insurance in-force blocks and higher terminations in our term universal life insurance product in 2015.

***Benefits and expenses***

*Benefits and other changes in policy reserves*

Our long-term care insurance business decreased $1,089 million. The decrease was largely related to our annual loss recognition testing in the fourth quarter of 2014 that resulted in an increase of $729 million of reserves and the completion of a comprehensive review of our claim reserves in the third quarter of 2014 that resulted in an increase in claim reserves of $531 million, net of reinsurance. These decreases were partially offset by aging and growth of the in-force block, higher severity and frequency on new claims and incremental reserves of $13 million recorded in connection with an accrual for profits followed by losses in 2015.

Our life insurance business increased $64 million primarily related to our universal and term universal life insurance products largely from the completion of our annual review of assumptions in the fourth quarter of 2015 that resulted in an increase in reserves of $187 million. The increase was also attributable to unfavorable mortality in our term universal life insurance product and a favorable unlocking of $23 million in our term universal and universal life insurance products in 2014. These increases were partially offset by our term life insurance products principally from a $49 million unfavorable correction related to reserves on a reinsurance transaction recorded in the fourth quarter of 2014 and the recapture of a reinsurance agreement in 2014 and favorable mortality and higher ceded reinsurance in 2015.

164

**Table of Contents**

Our fixed annuities business decreased $103 million predominantly attributable to lower sales of our life-contingent products and lower interest credited in 2015.

*Interest credited.* The decrease was mainly related to our fixed annuities business driven by lower crediting rates and a decrease in average account values in 2015.

*Acquisition and operating expenses, net of deferrals*

Our long-term care insurance business increased $16 million primarily from growth of our in-force block and a restructuring charge, partially offset by lower marketing costs in 2015.

Our life insurance business increased $9 million largely from higher net commissions due to lower deferrals on older in-force blocks and higher variable compensation costs, partially offset by lower production in 2015.

*Amortization of deferred acquisition costs and intangibles*

Our long-term care insurance business decreased $13 million largely related to the write-off of PVFP in connection with our annual loss recognition testing completed in the fourth quarter of 2014 which also resulted in lower amortization in 2015.

Our life insurance business increased $560 million largely from a DAC impairment of $455 million in the third quarter of 2015 as a result of loss recognition testing of certain term life insurance policies as part of a life block transaction. In the fourth quarter of 2015, as part of our annual review of assumptions, we recorded an unfavorable unlocking in our universal life insurance products of $123 million, which included $63 million of corrections related to reinsurance inputs. In 2014, we recorded an unfavorable unlocking of $12 million in our term universal and universal life insurance products.

Our fixed annuities business decreased $20 million largely attributable to higher net investment losses and a decrease in account values in 2015.

*Goodwill impairment*

We recorded goodwill impairments of $354 million in our long-term care insurance business in 2014.

We recorded goodwill impairments of $495 million in our life insurance business in 2014.

*Interest expense.* Interest expense increased driven by our life insurance business principally from the impact of credit rating downgrades of our life insurance subsidiaries which increased the cost of financing term life insurance reserves, partially offset by a refinancing transaction executed in 2015.

*Benefit for income taxes.* The effective tax rate increased to 35.3% for the year ended December 31, 2015 from 21.5% for the year ended December 31, 2014. The increase in the effective tax rate was primarily attributable to non-deductible goodwill impairments in 2014.

165

Table of Contents

***U.S. Life Insurance selected operating performance measures***

***Long-term care insurance***

The following table sets forth selected operating performance measures regarding our individual and group long-term care insurance products for the periods indicated:

| (Amounts in millions) | Years ended December 31, 2016 | 2015 | 2014 | Increase (decrease) and percentage change 2016 vs. 2015 | | 2015 vs. 2014 | |
|---|---|---|---|---|---|---|---|
| Net earned premiums: | | | | | | | |
| Individual long-term care insurance | $ 2,416 | $ 2,330 | $ 2,234 | $ 86 | 4% | $ 96 | 4% |
| Group long-term care insurance | 98 | 107 | 102 | (9) | (8)% | 5 | 5% |
| Total | $ 2,514 | $ 2,437 | $ 2,336 | $ 77 | 3% | $ 101 | 4% |
| Annualized first-year premiums and deposits: | | | | | | | |
| Individual long-term care insurance | $ 12 | $ 33 | $ 90 | $ (21) | (64)% | $ (57) | (63)% |
| Group long-term care insurance | 8 | 5 | 10 | 3 | 60% | (5) | (50)% |
| Total | $ 20 | $ 38 | $ 100 | $ (18) | (47)% | $ (62) | (62)% |
| Loss ratio | 90% | 74% | 129% | 16% | | (55)% | |

The loss ratio is the ratio of benefits and other changes in reserves less tabular interest on reserves less loss adjustment expenses to net earned premiums.

***2016 compared to 2015***

Net earned premiums increased mostly from $125 million of increased premiums in 2016 from in-force rate actions approved and implemented, partially offset by policy terminations in 2016.

Annualized first-year premiums and deposits decreased principally from reduced sales due to higher pricing on newer products and certain distributor suspensions driven by rating agency actions.

The loss ratio increased largely related to the significant increase in benefits and other changes in reserves in 2016 compared to 2015 as discussed above. These increases were partially offset by $125 million of higher premiums in 2016 from in-force rate actions approved and implemented.

***2015 compared to 2014***

Net earned premiums increased mainly attributable to higher premiums of $96 million in 2015 from in-force rate actions approved and implemented.

Annualized first-year premiums and deposits decreased principally from higher pricing on the product launched in 2014 and certain distributor suspensions driven by rating agency actions in the fourth quarter of 2014.

The loss ratio decreased largely related to the significant decrease in benefits and other changes in reserves in 2015 compared to 2014 as discussed above. The decrease was also attributable to $96 million of higher premiums in 2015 from in-force rate actions approved and implemented.

**Table of Contents**

***Life insurance***

The following table sets forth selected operating performance measures regarding our life insurance business as of or for the dates indicated:

| (Amounts in millions) | As of or for years ended December 31, 2016 | 2015 | 2014 | Increase (decrease) and percentage change 2016 vs. 2015 | | 2015 vs. 2014 | |
|---|---|---|---|---|---|---|---|
| **Term and whole life insurance** | | | | | | | |
| Net earned premiums | $ 153 | $ 670 | $ 722 | $ (517) | (77)% | $ (52) | (7)% |
| Sales | 7 | 31 | 51 | (24) | (77)% | (20) | (39)% |
| Life insurance in-force, net of reinsurance | 202,645 | 312,226 | 353,631 | (109,581) | (35)% | (41,405) | (12)% |
| Life insurance in-force before reinsurance | 488,312 | 510,529 | 522,761 | (22,217) | (4)% | (12,232) | (2)% |
| **Term universal life insurance** | | | | | | | |
| Net deposits | $ 250 | $ 259 | $ 269 | $ (9) | (3)% | $ (10) | (4)% |
| Life insurance in-force, net of reinsurance | 121,856 | 125,001 | 128,289 | (3,145) | (3)% | (3,288) | (3)% |
| Life insurance in-force before reinsurance | 122,748 | 125,928 | 129,296 | (3,180) | (3)% | (3,368) | (3)% |
| **Universal life insurance** | | | | | | | |
| Net deposits | $ 376 | $ 486 | $ 561 | $ (110) | (23)% | $ (75) | (13)% |
| Sales: | | | | | | | |
| Universal life insurance | 4 | 13 | 31 | (9) | (69)% | (18) | (58)% |
| Linked-benefits | 3 | 10 | 16 | (7) | (70)% | (6) | (38)% |
| Life insurance in-force, net of reinsurance | 38,836 | 40,376 | 41,959 | (1,540) | (4)% | (1,583) | (4)% |
| Life insurance in-force before reinsurance | 44,524 | 46,582 | 48,570 | (2,058) | (4)% | (1,988) | (4)% |
| **Total life insurance** | | | | | | | |
| Net earned premiums and deposits | $ 779 | $ 1,415 | $ 1,552 | $ (636) | (45)% | $ (137) | (9)% |
| Sales: | | | | | | | |
| Term life insurance | 7 | 31 | 51 | (24) | (77)% | (20) | (39)% |
| Universal life insurance | 4 | 13 | 31 | (9) | (69)% | (18) | (58)% |
| Linked-benefits | 3 | 10 | 16 | (7) | (70)% | (6) | (38)% |
| Life insurance in-force, net of reinsurance | 363,337 | 477,603 | 523,879 | (114,266) | (24)% | (46,276) | (9)% |
| Life insurance in-force before reinsurance | 655,584 | 683,039 | 700,627 | (27,455) | (4)% | (17,588) | (3)% |

***2016 compared to 2015***

*Term and whole life insurance*

Net earned premiums and our life insurance in-force, net of reinsurance, decreased primarily related to higher ceded reinsurance and lower sales in 2016. In the first quarter of 2016, we initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction. Sales of our term life insurance products decreased predominantly related to certain distributor suspensions driven by rating agency actions and from the suspension of sales of our traditional life insurance products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

*Term universal life insurance*

We no longer solicit sales of term universal life insurance products; however, we continue to service our existing block of business.

*Universal life insurance*

Net deposits decreased primarily from distributor suspensions following adverse rating actions and from the suspension of sales of our traditional life insurance products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

Table of Contents

***2015 compared to 2014***

*Term and whole life insurance*

Net earned premiums decreased primarily due to higher ceded reinsurance, lapse experience and lower production in 2015. Sales of our term life insurance product decreased predominantly related to changes in our competitive position in the marketplace in 2015. The decrease in life insurance in-force was principally related to a reinsurance transaction and higher lapses in 2016.

*Term universal life insurance*

We no longer solicit sales of term universal life insurance products; however, we continue to service our existing block of business.

*Universal life insurance*

Net deposits decreased in 2016 primarily related to changes in our competitive positioning in the marketplace and distributor suspensions following adverse rating actions in the fourth quarter of 2014. Our life insurance in-force decreased primarily from higher lapses of older issued policies and lower deposits in 2016.

***Fixed annuities***

The following table sets forth selected operating performance measures regarding our fixed annuities as of or for the dates indicated:

| | As of or for years ended December 31, | | | Increase (decrease) and percentage change | | | |
|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** | **2016 vs. 2015** | | **2015 vs. 2014** | |
| **Single Premium Deferred Annuities** | | | | | | | |
| Account value, beginning of period | $ 12,480 | $ 12,437 | $ 11,807 | $ 43 | % | $ 630 | 5% |
| Deposits | 177 | 1,080 | 1,699 | (903) | (84)% | (619) | (36)% |
| Surrenders, benefits and product charges | (1,151) | (1,339) | (1,410) | 188 | 14% | 71 | 5% |
| Net flows | (974) | (259) | 289 | (715) | NM(1) | (548) | (190)% |
| Interest credited and investment performance | 300 | 302 | 341 | (2) | (1)% | (39) | (11)% |
| Account value, end of period | $ 11,806 | $ 12,480 | $ 12,437 | $ (674) | (5)% | $ 43 | % |
| **Single Premium Immediate Annuities** | | | | | | | |
| Account value, beginning of period | $ 5,180 | $ 5,763 | $ 5,837 | $ (583) | (10)% | $ (74) | (1)% |
| Premiums and deposits | 98 | 152 | 274 | (54) | (36)% | (122) | (45)% |
| Surrenders, benefits and product charges | (755) | (791) | (852) | 36 | 5% | 61 | 7% |
| Net flows | (657) | (639) | (578) | (18) | (3)% | (61) | (11)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest credited | 228 | 249 | 266 | (21) | (8)% | (17) | (6)% |
| Effect of accumulated net unrealized investment gains (losses) | 102 | (193) | 238 | 295 | 153% | (431) | (181)% |
| Account value, end of period | $ 4,853 | $ 5,180 | $ 5,763 | $ (327) | (6)% | $ (583) | (10)% |
| **Structured Settlements** | | | | | | | |
| Account value, net of reinsurance, beginning of period | $ 1,066 | $ 1,078 | $ 1,093 | $ (12) | (1)% | $ (15) | (1)% |
| Surrenders, benefits and product charges | (62) | (69) | (72) | 7 | 10% | 3 | 4% |
| Net flows | (62) | (69) | (72) | 7 | 10% | 3 | 4% |
| Interest credited | 57 | 57 | 57 | | % | | % |
| Account value, net of reinsurance, end of period | $ 1,061 | $ 1,066 | $ 1,078 | $ (5) | (0)% | $ (12) | (1)% |
| Total premiums from fixed annuities | $ 3 | $ 21 | $ 111 | $ (18) | (86)% | $ (90) | (81)% |
| Total deposits on fixed annuities | $ 272 | $ 1,211 | $ 1,862 | $ (939) | (78)% | $ (651) | (35)% |

168

***2016 compared to 2015***

*Single Premium Deferred Annuities*

Account value of our single premium deferred annuities decreased as surrenders and benefits outpaced deposits and interest credited. Sales decreased primarily related to suspension of our products by distributors driven by the rating actions and from the suspension of sales of our traditional fixed annuity products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

*Single Premium Immediate Annuities*

Account value of our single premium immediate annuities decreased as benefits exceeded net unrealized investment gains, interest credited and premiums. In 2016, we also had $24 million of higher reserves related to loss recognition testing driven primarily by the low interest rate environment in the current year (see Critical Accounting Estimates for additional information). Sales declined primarily related to suspension of our products by distributors driven by the rating actions and from the suspension of sales of our traditional fixed annuity products on March 7, 2016. While we no longer solicit sales of these products, we continue to service our existing block of business.

*Structured Settlements*

We no longer solicit sales of structured settlements; however, we continue to service our existing block of business.

***2015 compared to 2014***

*Single Premium Deferred Annuities*

Account value of our single premium deferred annuities increased as deposits and interest credited outpaced surrenders and benefits. Sales declined in 2015 primarily related to suspension of our products by distributors driven by the rating actions in the fourth quarter of 2014 and from pressured current market conditions and continued low interest rates.

*Single Premium Immediate Annuities*

Account value of our single premium immediate annuities decreased as benefits and net unrealized investment losses exceeded premiums and deposits and interest credited. Sales declined in 2015 primarily related to suspension of our products by distributors driven by the rating actions in the fourth quarter of 2014 and from pressured current market conditions and continued low interest rates.

*Structured Settlements*

We no longer solicit sales of structured settlements; however, we continue to service our existing block of business.

**Runoff segment**

***Trends and conditions***

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

169

Table of Contents

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

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

Several factors may impact the time period for these products to runoff including the specific policy types, economic conditions and management strategies.

***Segment results of operations***

The following table sets forth the results of operations relating to our Runoff segment for the periods indicated:

| **(Amounts in millions)** | **Years ended December 31, 2016** | **2015** | **2014** | **Increase (decrease) and percentage change 2016 vs. 2015** | | **2015 vs. 2014** | |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Premiums | $ | $ 1 | $ 3 | $ (1) | (100)% | $ (2) | (67)% |
| Net investment income | 147 | 138 | 129 | 9 | 7% | 9 | 7% |
| Net investment gains (losses) | (14) | (69) | (66) | 55 | 80% | (3) | (5)% |
| Policy fees and other income | 169 | 189 | 209 | (20) | (11)% | (20) | (10)% |
| Total revenues | 302 | 259 | 275 | 43 | 17% | (16) | (6)% |
| Benefits and expenses: | | | | | | | |
| Benefits and other changes in policy reserves | 42 | 44 | 37 | (2) | (5)% | 7 | 19% |
| Interest credited | 131 | 124 | 119 | 7 | 6% | 5 | 4% |
| Acquisition and operating expenses, net of deferrals | 68 | 76 | 84 | (8) | (11)% | (8) | (10)% |
| Amortization of deferred acquisition costs and intangibles | 29 | 29 | 39 | | % | (10) | (26)% |
| Interest expense | 1 | 1 | 1 | | % | | % |
| Total benefits and expenses | 271 | 274 | 280 | (3) | (1)% | (6) | (2)% |
| Income (loss) from continuing operations before income taxes | 31 | (15) | (5) | 46 | NM[1] | (10) | (200)% |
| Provision (benefit) for income taxes | 6 | (10) | (19) | 16 | 160% | 9 | 47% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income (loss) from continuing operations | 25 | (5) | 14 | 30 | NM[1] | (19) | (136)% |
| Adjustment to income (loss) from continuing operations: | | | | | | | |
| Net investment (gains) losses, net [2] | 5 | 49 | 53 | (44) | (90)% | (4) | (8)% |
| Taxes on adjustments | (2) | (17) | (19) | 15 | 88% | 2 | 11% |
| Adjusted operating income available to Genworth Financial, Inc. s common stockholders | $ 28 | $ 27 | $ 48 | $ 1 | 4% | $ (21) | (44)% |

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

(2) For 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(9) million, $(20) million and $(13) million, respectively.

170

Table of Contents

***2016 compared to 2015***

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders increased slightly primarily driven by favorable equity market performance, partially offset by lower account values in our variable annuity products in 2016.

***Revenues***

Net investment income increased driven by higher policy loan income in our corporate-owned life insurance products and higher average invested assets, partially offset by $6 million of lower gains from limited partnerships in 2016.

Net investment losses decreased primarily related to gains on embedded derivatives associated with our variable annuity products with GMWBs in 2016 compared to losses in 2015, partially offset by higher derivative losses in 2016.

Policy fees and other income decreased mainly attributable to lower account values in our variable annuity products in 2016.

***Benefits and expenses***

Interest credited increased largely related to higher cash values in our corporate-owned life insurance products in 2016.

Acquisition and operating expenses, net of deferrals, decreased largely related to lower commissions in 2016 as a result of the runoff of our variable annuity products.

*Provision (benefit) for income taxes*. The effective tax rate decreased to 19.4% for the year ended 2016 from 67.5% for the year ended 2015. The decrease in the effective tax rate was primarily attributable to tax favored investments in relation to pre-tax results in 2016 compared to 2015.

***2015 compared to 2014***

***Adjusted operating income available to Genworth Financial, Inc. s common stockholders***

Adjusted operating income available to Genworth Financial, Inc. s common stockholders decreased primarily driven by our variable annuity products from lower account values due to policy surrenders, unfavorable equity market performance and unfavorable mortality in 2015.

***Revenues***

Net investment income increased predominantly driven by higher gains of $5 million from limited partnerships in 2015.

Policy fees and other income decreased mainly attributable to lower account values in our variable annuity products in 2015.

***Benefits and expenses***

Benefits and other changes in policy reserves increased primarily attributable to unfavorable mortality and an increase in our GMWB reserves in our variable annuity products due to unfavorable equity market performance in 2015.

171

Table of Contents

Interest credited increased largely related to higher loan cash values in our corporate-owned life insurance products in 2015.

Acquisition and operating expenses, net of deferrals, decreased largely related to lower commissions in 2015 as a result of the runoff of our variable annuity products.

Amortization of deferred acquisition costs and intangibles decreased related to our variable annuity products principally attributable to lower account values and higher net investment losses, partially offset by less favorable unlockings of $4 million in 2015.

*Provision (benefit) for income taxes*. The effective tax rate was 67.5% for the year ended December 31, 2015 and was primarily attributable to changes in tax favored investment benefits in relation to pre-tax results, true ups in 2014 and changes in the valuation allowance in 2014. The effective tax rate was not meaningful for the year ended December 31, 2014.

***Runoff selected operating performance measures***

***Variable annuity products***

The following table sets forth selected operating performance measures regarding our variable annuity products as of or for the dates indicated:

| | As of or for the years ended December 31, | | | Increase (decrease) and percentage change | | | |
|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** | **2016 vs. 2015** | | **2015 vs. 2014** | |
| **Variable Annuities Income Distribution Series** [1] | | | | | | | |
| Account value, beginning of period | $ 4,942 | $ 5,666 | $ 6,061 | $ (724) | (13)% | $ (395) | (7)% |
| Deposits | 22 | 33 | 50 | (11) | (33)% | (17) | (34)% |
| Surrenders, benefits and product charges | (570) | (699) | (820) | 129 | 18% | 121 | 15% |
| Net flows | (548) | (666) | (770) | 118 | 18% | 104 | 14% |
| Interest credited and investment performance | 187 | (58) | 375 | 245 | NM[2] | (433) | (115)% |
| Account value, end of period | $ 4,581 | $ 4,942 | $ 5,666 | $ (361) | (7)% | $ (724) | (13)% |
| **Traditional Variable Annuities** | | | | | | | |
| Account value, net of reinsurance, beginning of period | $ 1,241 | $ 1,455 | $ 1,643 | $ (214) | (15)% | $ (188) | (11)% |
| Deposits | 8 | 9 | 10 | (1) | (11)% | (1) | (10)% |
| Surrenders, benefits and product charges | (198) | (259) | (309) | 61 | 24% | 50 | 16% |
| Net flows | (190) | (250) | (299) | 60 | 24% | 49 | 16% |
| Interest credited and investment performance | 116 | 36 | 111 | 80 | NM[2] | (75) | (68)% |
| | $ 1,167 | $ 1,241 | $ 1,455 | $ (74) | (6)% | $ (214) | (15)% |

Account value, net of reinsurance, end of period

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Variable Life Insurance** | | | | | | | | | | | | |
| Account value, beginning of period | $ | 291 | $ | 313 | $ | 316 | $ | (22) | (7)% | $ | (3) | (1)% |
| Deposits | | 7 | | 8 | | 8 | | (1) | (13)% | | | % |
| Surrenders, benefits and product charges | | (33) | | (38) | | (38) | | 5 | 13% | | | % |
| Net flows | | (26) | | (30) | | (30) | | 4 | 13% | | | % |
| Interest credited and investment performance | | 18 | | 8 | | 27 | | 10 | 125% | | (19) | (70)% |
| Account value, end of period | $ | 283 | $ | 291 | $ | 313 | $ | (8) | (3)% | $ | (22) | (7)% |

(1) The Income Distribution Series products are comprised of our deferred and immediate variable annuity products, including those variable annuity products with rider options that provide guaranteed income benefits, including GMWBs and certain types of guaranteed annuitization benefits. These products do not include fixed single premium immediate annuities or deferred annuities, which may also serve income distribution needs.

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

172

Table of Contents

***2016 compared to 2015***

*Variable Annuities Income Distribution Series*

Account value related to our Income Distribution Series products decreased primarily related to surrenders outpacing favorable equity market performance. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Traditional Variable Annuities*

In our traditional variable annuities, the decrease in account value was primarily the result of surrenders outpacing favorable equity market performance. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Variable Life Insurance*

We no longer solicit sales of variable life insurance; however, we continue to service our existing block of business.

***2015 compared to 2014***

*Variable Annuities Income Distribution Series*

Account value related to our Income Distribution Series products decreased primarily related to surrenders and unfavorable equity market performance in 2015. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Traditional Variable Annuities*

In our traditional variable annuities, the decrease in account value was primarily the result of surrenders and unfavorable equity market performance in 2015. We no longer solicit sales of our variable annuities; however, we continue to service our existing block of business and accept additional deposits on existing contracts.

*Variable Life Insurance*

We no longer solicit sales of variable life insurance; however, we continue to service our existing block of business.

***Institutional products***

The following table sets forth selected operating performance measures regarding our institutional products as of or for the dates indicated:

| | **As of or for the years ended December 31,** | | | **Increase (decrease) and percentage change** | |
|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** | **2016 vs. 2015** | **2015 vs. 2014** |
| **GICs, FABNs and Funding Agreements** | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Account value, beginning of period | $ 410 | $ 493 | $ 896 | $ (83) | (17)% | $ (403) | (45)% |
| Deposits | 254 | | | 254 | NM[1] | | % |
| Surrenders and benefits | (110) | (86) | (408) | (24) | (28)% | 322 | 79% |
| Net flows | 144 | (86) | (408) | 230 | NM[1] | 322 | 79% |
| Interest credited | 6 | 3 | 5 | 3 | 100% | (2) | (40)% |
| Account value, end of period | $ 560 | $ 410 | $ 493 | $ 150 | 37% | $ (83) | (17)% |

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

173

Table of Contents

***2016 compared to 2015***

Account value related to our institutional products increased mainly attributable to higher deposits as a result of issuing funding agreements for asset-liability management and yield enhancement outpacing scheduled maturities of these products in 2016.

***2015 compared to 2014***

Account value related to our institutional products decreased mainly attributable to scheduled maturities of these products.

**Corporate and Other Activities**

***Results of operations***

The following table sets forth the results of operations relating to Corporate and Other activities for the periods indicated:

| | Years ended December 31, | | | Increase (decrease) and percentage change | | | |
|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** | **2016 vs. 2015** | | **2015 vs. 2014** | |
| Revenues: | | | | | | | |
| Premiums | $ 12 | $ 25 | $ 29 | $ (13) | (52)% | $ (4) | (14)% |
| Net investment income | 3 | (3) | (10) | 6 | 200% | 7 | (70)% |
| Net investment gains (losses) | (87) | 29 | 2 | (116) | NM[1] | 27 | NM[1] |
| Policy fees and other income | 78 | (10) | 1 | 88 | NM[1] | (11) | NM[1] |
| Total revenues | 6 | 41 | 22 | (35) | (85)% | 19 | 86% |
| Benefits and expenses: | | | | | | | |
| Benefits and other changes in policy reserves | 4 | 14 | 24 | (10) | (71)% | (10) | (42)% |
| Acquisition and operating expenses, net of deferrals | 217 | 230 | 69 | (13) | (6)% | 161 | NM[1] |
| Amortization of deferred acquisition costs and intangibles | 1 | 1 | 3 | | % | (2) | (67)% |
| Interest expense | 270 | 298 | 314 | (28) | (9)% | (16) | (5)% |
| Total benefits and expenses | 492 | 543 | 410 | (51) | (9)% | 133 | 32% |
| Loss from continuing operations before income taxes | (486) | (502) | (388) | 16 | 3% | (114) | (29)% |
| Provision (benefit) for income taxes | 114 | (130) | (93) | 244 | 188% | (37) | (40)% |
| Loss from continuing operations available to Genworth Financial, Inc. s common stockholders | (600) | (372) | (295) | (228) | (61)% | (77) | (26)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Adjustments to loss from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | | | | | |
| Net investment (gains) losses, net | 87 | (29) | (2) | 116 | NM[1] | (27) | NM[1] |
| (Gains) losses on sale of businesses, net | (2) | 140 | | (142) | (101)% | 140 | NM[1] |
| (Gains) losses on early extinguishment of debt, net | (48) | 1 | | (49) | NM[1] | 1 | NM[1] |
| Expenses related to restructuring, net | 2 | 3 | | (1) | (33)% | 3 | NM[1] |
| Tax impact from potential business portfolio changes | | | 31 | | % | (31) | (100)% |
| Fees associated with bond solicitation | 18 | | | 18 | NM[1] | | % |
| Taxes on adjustments | (44) | 9 | | (53) | NM[1] | 9 | NM[1] |
| Adjusted operating loss available to Genworth Financial, Inc. s common stockholders | $ (587) | $ (248) | $ (266) | $ (339) | (137)% | $ 18 | 7% |

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

Table of Contents

***2016 compared to 2015***

***Adjusted operating loss available to Genworth Financial, Inc. s common stockholders***

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders increased mainly as a result of tax charges of $258 million and additional legal fees and expenses of $70 million, partially offset by lower operating expenses and interest expense in the current year.

***Revenues***

Premiums decreased largely related to the sale of our European mortgage insurance business in May 2016.

Net investment income increased related to the elimination of affiliate preferred stock dividends of approximately $8 million in 2015 that did not recur.

Net investment losses in 2016 were primarily related to a $64 million loss from the write-off of our residual interest in certain policy loan securitization entities as well as net realized losses from the sale of investment securities and derivative losses. Net investment gains in 2015 were primarily related to derivative gains and net realized gains from the sale of investment securities.

Policy fees and other income in 2016 included a gain of $64 million from the early extinguishment of debt related to the redemption of a securitization entity and a gain of $11 million attributable to the sale of assets to Pac Life. Policy fees and other income in 2015 included losses from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased largely related to the sale of our European mortgage insurance business in May 2016.

Acquisition and operating expenses, net of deferrals, decreased mainly driven by the $140 million loss on the sale of our mortgage insurance business in Europe recorded in the fourth quarter of 2015, partially offset by $69 million for the settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $10 million of legal fees and expenses related to this litigation in 2016. In addition, we paid a make-whole expense of $20 million on the early redemption of Genworth Holdings 2016 senior notes in January 2016 and paid broker, advisor and investment banking fees of $18 million associated with Genworth Holdings bond consent solicitation in March 2016. The increase was also partially offset by an additional loss of $9 million related to the sale of our mortgage insurance business in Europe in 2016.

Interest expense decreased largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

The income tax provision was largely attributable to a valuation allowance of $258 million recorded on deferred tax assets in 2016. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. The financial projections did not include any benefits or aspects of the proposed transaction with China Oceanwide nor did they assume any charges associated with tax attribute limitations that would occur with a change in ownership. This increase was partially offset by the reversal of a deferred tax valuation allowance established on a specific capital loss and the proportion of lower foreign income to pre-tax loss in 2016 compared to 2015.

175

Table of Contents

***2015 compared to 2014***

***Adjusted operating loss available to Genworth Financial, Inc. s common stockholders***

The adjusted operating loss available to Genworth Financial, Inc. s common stockholders decreased primarily attributable to higher tax benefits and lower interest expense, partially offset by higher operating expenses and losses from non-functional currency transactions in 2015.

***Revenues***

Premiums decreased primarily related to our European mortgage insurance business as a result of a $4 million decrease attributable to changes in foreign exchange rates in 2015.

Net investment income increased from affiliate preferred stock dividends of approximately $8 million in 2015 that were previously included in the U.S. Mortgage Insurance segment.

Net investment gains increased mainly driven by derivative gains in 2015.

Policy fees and other income decreased mainly as a result of losses in 2015 from non-functional currency transactions attributable to changes in foreign exchange rates related to intercompany transactions.

***Benefits and expenses***

Benefits and other changes in policy reserves decreased primarily related to our European mortgage insurance business driven by lower new delinquencies and improved aging on our existing delinquencies, partially offset by lower cures in 2015 mainly attributable to a lender settlement in the fourth quarter of 2014. The year ended December 31, 2015 included a $3 million decrease attributable to changes in foreign exchange rates in 2015.

Acquisition and operating expenses, net of deferrals, increased mainly from an estimated loss on sale related to our mortgage insurance business in Europe of $140 million recorded in the fourth quarter of 2015 and higher legal accruals and expenses of $30 million in 2015. These increases were partially offset by lower net expenses after allocations to our operating segments in 2015.

Interest expense decreased largely driven by the repayment of $485 million of senior notes in June 2014.

The increase in the income tax benefit was primarily attributable to changes in our uncertain tax positions, partially offset by stock-based compensation expense in 2015.

**Investments and Derivative Instruments**

***Trends and conditions***

*Investments credit and investment markets*

U.S. Treasury yields rose by as much as 40 basis points in response to the U.S. Presidential election and continued to rise steadily for the remainder of the fourth quarter of 2016, further supported by a 25 basis point hike in the Federal Reserve policy rate. The shift towards higher U.S. Treasury yields also reflected expectations for a faster pace of interest rate increases by the Federal Reserve, underpinned by rising inflation expectations. Global yields followed the

U.S. bond markets higher and equity markets rose, particularly in the U.S., founded on expectations of robust fiscal stimulus coupled with business oriented economic policy changes leading global economic growth higher. At the same time, growth prospects also improved the outlook and the demand for credit products and credit spreads tightened steadily, dampening the overall rise in yields. Overall, both U.S. and most global rates ended higher in 2016 compared to the first half of the year as a result of the fourth quarter of 2016 activity described above but were lower on average versus 2015.

Table of Contents

As of December 31, 2016, our fixed maturities securities portfolio, which was 96% investment grade, comprised 81% of our total investment portfolio. Our $3.6 billion energy portfolio was predominantly investment grade and our metals and mining sector holdings were less than 1% of our total investment portfolio as of December 31, 2016. We believe our energy portfolio is well-diversified and would expect manageable capital impact on our U.S. life insurance subsidiaries.

*Derivatives*

We actively responded to the risk to our derivatives portfolio arising from our counterparties right to terminate their bilateral OTC derivatives transactions with us following the downgrades of our life insurance subsidiaries in September and October 2016. We notified our counterparties of the downgrades to determine whether they would exercise their rights to terminate the transactions, agree to maintain the transactions with us under revised terms or permit us to move the transactions to clearing through the Chicago Mercantile Exchange ( CME ). Although some counterparties have indicated that they reserve their rights to take action against us, none have and we continue to discuss the downgrades with them.

As of December 31, 2016, $14.4 billion notional of our derivatives portfolio was cleared through the CME. The customer swap agreements that govern our cleared derivatives contain provisions that enable our clearing agents to request initial margin in excess of CME requirements. As of December 31, 2016, we posted initial margin of $414 million to our clearing agents, which represented approximately $101 million more than was otherwise required by the clearinghouse. Because our clearing agents serve as guarantors of our obligations to the CME, the customer agreements contain broad termination provisions that are not specifically dependent on ratings. As of December 31, 2016, $6.4 billion notional of our derivatives portfolio was in bilateral OTC derivatives transactions pursuant to which we have posted aggregate independent amounts of $300 million and are holding collateral from counterparties in the amount of $75 million. We have notional of $974 million in bilateral OTC derivatives where the counterparty has the right to terminate its transactions with us based on our current ratings. Given our current ratings, our ability to enter into new derivatives transactions will be more limited.

During the second quarter of 2016, we restruck our forward starting swap portfolio by terminating and settling then existing positions and entering into new forward starting swaps at current interest rates. These transactions had no direct impact on our consolidated results or financial position. Because the forward starting swap portfolio was at a significant gain, upon termination, we received cash which was invested to generate additional income. Reestablishing the forward starting swaps is intended to help protect us against further declines in interest rates. Derivatives qualifying as hedges include amounts related to both previously terminated and active hedge positions in our long-term care insurance business and will be amortized into net investment income over time as we invest future premiums.

During the second quarter of 2016, a counterparty to our inflation index swaps indicated it would exercise its right to terminate its derivative positions with us. As a result, we discontinued hedge accounting for the inflation index swaps used to hedge inflation risk in the TIPS we purchased in 2009 and 2010. We decided to sell the TIPS concurrent with the hedge termination which eliminated the possibility that the remaining forecasted transactions would occur. These extenuating circumstances were beyond our control and we do not believe this impacts our ability to forecast transactions related to other cash flow hedge programs.

**Table of Contents**

***Investment results***

The following table sets forth information about our investment income, excluding net investment gains (losses), for each component of our investment portfolio for the years ended December 31:

| | **Years ended December 31,** | | | | | | **Increase (decrease)** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | | **2015** | | **2014** | | **2016 vs. 2015** | | **2015 vs. 2014** | |
| **(Amounts in millions)** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** | **Yield** | **Amount** |
| Fixed maturity securities taxable | 4.6% | $ 2,565 | 4.6% | $ 2,558 | 4.7% | $ 2,598 | % | $ 7 | (0.1)% | $ (40) |
| Fixed maturity securities non-taxable | 3.6% | 12 | 3.5% | 12 | 3.5% | 12 | 0.1% | | % | |
| Commercial mortgage loans | 5.2% | 318 | 5.5% | 337 | 5.6% | 333 | (0.3)% | (19) | (0.1)% | 4 |
| Restricted commercial mortgage loans related to securitization entities (1) | 7.1% | 10 | 8.0% | 14 | 6.6% | 14 | (0.9)% | (4) | 1.4% | |
| Equity securities | 5.6% | 28 | 5.2% | 15 | 5.0% | 14 | 0.4% | 13 | 0.2% | 1 |
| Other invested assets | 25.3% | 141 | 24.7% | 135 | 20.3% | 105 | 0.6% | 6 | 4.4% | 30 |
| Restricted other invested assets related to securitization entities (1) | 0.9% | 3 | 1.3% | 5 | 1.3% | 5 | (0.4)% | (2) | % | |
| Policy loans | 8.7% | 146 | 8.9% | 137 | 8.7% | 129 | (0.2)% | 9 | 0.2% | 8 |
| Cash, cash equivalents and short-term investments | 0.5% | 20 | 0.3% | 13 | 0.6% | 24 | 0.2% | 7 | (0.3)% | (11) |
| Gross investment income before expenses and fees | 4.6% | 3,243 | 4.6% | 3,226 | 4.7% | 3,234 | % | 17 | (0.1)% | (8) |
| Expenses and fees | (0.1)% | (84) | (0.1)% | (88) | (0.1)% | (92) | % | 4 | % | 4 |
| Net investment income | 4.5% | $ 3,159 | 4.5% | $ 3,138 | 4.6% | $ 3,142 | % | $ 21 | (0.1)% | $ (4) |
| Average invested assets and cash | | $ 69,774 | | $ 69,976 | | $ 68,498 | | $ (202) | | $ 1,478 |

(1) See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

Yields are based on net investment income as reported under U.S. GAAP and are consistent with how we measure our investment performance for management purposes. Yields are annualized, for interim periods, and are calculated as net investment income as a percentage of average quarterly asset carrying values except for fixed maturity and equity securities, derivatives and derivative counterparty collateral, which exclude unrealized fair value adjustments and securities lending activity, which is included in other invested assets and is calculated net of the corresponding securities lending liability.

The annualized weighted-average investment yields remained unchanged from 2015 as lower reinvestment yields and variable income were offset by higher average invested assets in our long-term care insurance business. Net investment income reflected $20 million of lower gains related to limited partnerships and $10 million of lower gains related to bond calls and mortgage prepayments, partially offset by $13 million of higher income related to inflation-driven volatility on recent TIPS purchases as compared to 2015 and $5 million of lower unfavorable prepayment speed adjustments on structured securities. The year ended December 31, 2016 included a decrease of $10 million attributable to changes in foreign exchange rates.

The decrease in overall weighted-average investment yields in 2015 was primarily attributable to lower reinvestment yields on higher average invested assets and lower gains of $3 million related to limited partnerships in 2015. These decreases were partially offset by higher gains of $9 million related to bond calls and mortgage prepayments and a $7 million lower unfavorable prepayment speed adjustment on structured securities in 2015. The year ended December 31, 2015 included a decrease of $43 million attributable to changes in foreign exchange rates.

**Table of Contents**

The following table sets forth net investment gains (losses) for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Available-for-sale securities: | | | |
| Realized gains | $ 249 | $ 102 | $ 72 |
| Realized losses | (121) | (82) | (46) |
| Net realized gains (losses) on available-for-sale securities | 128 | 20 | 26 |
| Impairments: | | | |
| Total other-than-temporary impairments | (40) | (28) | (9) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | |
| Net other-than-temporary impairments | (40) | (27) | (9) |
| Trading securities | 10 | (7) | 39 |
| Commercial mortgage loans | 1 | 7 | 11 |
| Net gains (losses) related to securitization entities [1] | (50) | 5 | 16 |
| Derivative instruments | 20 | (76) | (103) |
| Contingent consideration adjustment | (2) | 2 | (2) |
| Other | 5 | 1 | |
| Net investment gains (losses) | $ 72 | $ (75) | $ (22) |

(1) See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

***2016 compared to 2015***

We recorded $13 million of higher net other-than-temporary impairments in 2016. During 2016 and 2015, we recorded impairments of $24 million and $21 million, respectively, related to corporate securities. Of the total impairments recorded in 2016, $7 million related to equity securities and $3 million related to limited partnerships. We recorded impairments of $4 million in each year related to commercial mortgage loans.

Net investment gains related to derivatives of $20 million in 2016 were primarily associated with various hedging programs that support our Canada Mortgage Insurance segment and gains associated with hedging programs for our indexed universal life insurance products. These gains were partially offset by losses related to hedging programs for our runoff variable annuity products.

Net investment losses related to derivatives of $76 million in 2015 were primarily associated with hedging programs for our runoff variable annuity products, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with assets held and losses related to hedging programs for our fixed indexed annuity products. These losses were partially offset by gains related to derivatives to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and gains from amounts reclassified from other comprehensive income (loss) due to sales of previously hedged bond purchases.

We recorded $108 million of higher net gains related to the sale of available-for-sale securities in 2016 primarily related to $130 million of gains from the sale of TIPS. During 2016, we also recorded $10 million of gains related to trading securities compared to $7 million of losses in 2015 resulting from changes in the long-term interest rate environment. We recorded $50 million of losses related to securitization entities in 2016 primarily related to a $64 million loss from the write-off of our residual interest in certain policy loan securitization entities in 2016 compared to $5 million of gains in 2015.

179

Table of Contents

***2015 compared to 2014***

We recorded $18 million of higher net other-than-temporary impairments in 2015. Total impairments included $21 million related to corporate securities and $2 million related to other asset-backed securities in 2015. During 2015 and 2014, we recorded impairments of $4 million and $3 million, respectively, related to commercial mortgage loans. Impairments related to financial hybrid securities as a result of certain banks being downgraded to below investment grade were $4 million in 2014.

Net investment losses related to derivatives of $76 million in 2015 were primarily associated with hedging programs for our runoff variable annuity products, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with assets held and losses related to hedging programs for our fixed indexed annuity products. These losses were partially offset by gains related to derivatives to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries and gains from amounts reclassified from other comprehensive income (loss) due to sales of previously hedged bond purchases.

Net investment losses related to derivatives of $103 million in 2014 were primarily associated with hedging programs for our runoff variable annuity products, including decreases in the values of instruments used to protect statutory surplus from equity market fluctuation. We also had losses related to derivatives used to hedge foreign currency risk associated with assets held and proceeds from the IPO of our Australian mortgage insurance business and losses related to a non-qualified derivative strategy to mitigate interest rate risk with our statutory capital positions. These losses were partially offset by gains related to hedge ineffectiveness from our cash flow hedge programs for our long-term care insurance business due to a decrease in long-term interest rates. We also had gains related to derivatives used to hedge foreign currency risk associated with expected dividend payments from certain foreign subsidiaries.

During 2015, we recorded $7 million of losses related to trading securities compared to $39 million of gains in 2014 resulting from changes in the long-term interest rate environment. We recorded $11 million of lower net gains related to securitization entities in 2015 primarily due to losses on trading securities in 2015 compared to gains in 2014 and lower gains on derivatives in 2015. We recorded lower net gains of $6 million related to the sale of available-for-sale securities in 2015.

***Investment portfolio***

The following table sets forth our cash, cash equivalents and invested assets as of December 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Fixed maturity securities, available-for-sale: | | | | |
| Public | $ 45,131 | 61% | $ 43,136 | 58% |
| Private | 15,441 | 21 | 15,061 | 20 |
| Commercial mortgage loans | 6,111 | 8 | 6,170 | 8 |

| | | | | |
|---|---|---|---|---|
| Other invested assets | 2,071 | 3 | 2,309 | 3 |
| Policy loans | 1,742 | 2 | 1,568 | 2 |
| Restricted other invested assets related to securitization entities [(1)] | 312 | | 413 | 1 |
| Equity securities, available-for-sale | 632 | 1 | 310 | |
| Restricted commercial mortgage loans related to securitization entities [(1)] | 129 | | 161 | |
| Cash and cash equivalents | 2,784 | 4 | 5,965 | 8 |
| Total cash, cash equivalents and invested assets | $ 74,353 | 100% | $ 75,093 | 100% |

(1) See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

180

**Table of Contents**

For a discussion of the change in cash, cash equivalents and invested assets, see the comparison for this line item under Consolidated Balance Sheets. See note 4 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to our investment portfolio.

We hold fixed maturity, equity and trading securities, derivatives, embedded derivatives, securities held as collateral and certain other financial instruments, which are carried at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As of December 31, 2016, approximately 7% of our investment holdings recorded at fair value was based on significant inputs that were not market observable and were classified as Level 3 measurements. See note 16 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to fair value.

*Fixed maturity and equity securities*

As of December 31, 2016, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Industrial | 928 | 39 | | (9) | | 958 |
| Capital goods | 518 | 21 | | (4) | | 535 |
| Consumer cyclical | 434 | 10 | | (2) | | 442 |
| Transportation | 619 | 65 | | (7) | | 677 |
| Other | 2,967 | 190 | | (13) | | 3,144 |
| Total non-U.S. corporate (1) | 11,717 | 669 | | (91) | | 12,295 |
| Residential mortgage-backed (2) | 4,122 | 259 | 10 | (12) | | 4,379 |
| Commercial mortgage-backed | 3,084 | 98 | 3 | (56) | | 3,129 |
| Other asset-backed (2) | 3,170 | 15 | 1 | (35) | | 3,151 |
| Total fixed maturity securities | 57,014 | 4,095 | 14 | (551) | | 60,572 |
| Equity securities | 628 | 31 | | (27) | | 632 |
| Total available-for-sale securities | $ 57,642 | $ 4,126 | $ 14 | $ (578) | $ | $ 61,204 |

(1) Fair value included European periphery exposure of $447 million in Ireland, $231 million in Spain, $95 million in Italy and $16 million in Portugal.

(2) Fair value included $43 million collateralized by Alt-A residential mortgage loans and $26 million collateralized by sub-prime residential mortgage loans.

181

**Table of Contents**

As of December 31, 2015, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

| | | 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 | $ 5,487 | $ 732 | $ | $ (16) | $ | $ 6,203 |
| State and political subdivisions | 2,287 | 181 | | (30) | | 2,438 |
| Non-U.S. government [(1)] | 1,910 | 110 | | (5) | | 2,015 |
| U.S. corporate: | | | | | | |
| Utilities | 3,355 | 364 | | (26) | | 3,693 |
| Energy | 2,560 | 103 | | (162) | | 2,501 |
| Finance and insurance | 5,268 | 392 | 15 | (43) | | 5,632 |
| Consumer non-cyclical | 3,755 | 371 | | (30) | | 4,096 |
| Technology and communications | 2,108 | 123 | | (38) | | 2,193 |
| Industrial | 1,164 | 53 | | (44) | | 1,173 |
| Capital goods | 1,774 | 188 | | (12) | | 1,950 |
| Consumer cyclical | 1,602 | 95 | | (22) | | 1,675 |
| Transportation | 1,023 | 75 | | (12) | | 1,086 |
| Other | 385 | 22 | | (5) | | 402 |
| Total U.S. corporate [(1)] | 22,994 | 1,786 | 15 | (394) | | 24,401 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 815 | 37 | | (9) | | 843 |
| Energy | 1,700 | 64 | | (78) | | 1,686 |
| Finance and insurance | 2,327 | 152 | 2 | (8) | | 2,473 |
| Consumer non-cyclical | 746 | 24 | | (18) | | 752 |
| Technology and communications | 978 | 36 | | (26) | | 988 |
| Industrial | 1,063 | 19 | | (96) | | 986 |
| Capital goods | 602 | 19 | | (17) | | 604 |
| Consumer cyclical | 522 | 8 | | (4) | | 526 |
| Transportation | 559 | 52 | | (6) | | 605 |
| Other | 2,574 | 187 | | (25) | | 2,736 |
| Total non-U.S. corporate [(1)] | 11,886 | 598 | 2 | (287) | | 12,199 |
| Residential mortgage-backed [(2)] | 4,777 | 330 | 11 | (17) | | 5,101 |
| Commercial mortgage-backed | 2,492 | 84 | 3 | (20) | | 2,559 |
| Other asset-backed [(2)] | 3,328 | 11 | 1 | (59) | | 3,281 |
| Total fixed maturity securities | 55,161 | 3,832 | 32 | (828) | | 58,197 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Equity securities | 325 | 8 | | (23) | | 310 |
| Total available-for-sale securities | $ 55,486 | $ 3,840 | $ 32 | $ (851) | $ | $ 58,507 |

(1) Fair value included European periphery exposure of $361 million in Ireland, $244 million in Spain, $103 million in Italy and $15 million in Portugal.

(2) Fair value included $32 million collateralized by sub-prime residential mortgage loans and $69 million collateralized by Alt-A residential mortgage loans.

Fixed maturity securities increased $2.4 billion principally from purchases exceeding sales and maturities and from higher net unrealized gains attributable to the changes in interest rates in 2016.

Our exposure in peripheral European countries consists of fixed maturity securities in Portugal, Ireland, Italy and Spain. Investments in these countries are primarily made to diversify our U.S. corporate fixed maturity securities with European bonds denominated in U.S. dollars. During 2016, we increased our exposure to the peripheral European countries by $66 million to $789 million with unrealized gains of $41million. As of

182

Table of Contents

December 31, 2016, our exposure was diversified with direct exposure to local economies of $167 million, indirect exposure through debt issued by subsidiaries outside of the European periphery of $118 million and exposure to multi-national companies where the majority of revenues come from outside of the country of domicile of $504 million.

*Commercial mortgage loans*

The following tables set forth additional information regarding our commercial mortgage loans as of December 31:

| | 2016 | | | | |
|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Total recorded investment** | **Number of loans** | **Loan-to-value** [(1)] | **Delinquent principal balance** | **Number of delinquent loans** |
| **Loan Year** | | | | | |
| 2004 and prior | $ 521 | 304 | 31% | $ | |
| 2005 | 469 | 135 | 43% | | |
| 2006 | 434 | 105 | 52% | 15 | 1 |
| 2007 | 452 | 126 | 54% | 1 | 1 |
| 2008 | 135 | 25 | 54% | | |
| 2009 | | | % | | |
| 2010 | 89 | 17 | 48% | | |
| 2011 | 215 | 47 | 47% | | |
| 2012 | 588 | 88 | 52% | | |
| 2013 | 781 | 136 | 54% | | |
| 2014 | 892 | 147 | 61% | | |
| 2015 | 932 | 143 | 65% | | |
| 2016 | 617 | 100 | 69% | | |
| Total | $ 6,125 | 1,373 | 55% | $ 16 | 2 |

(1) Represents weighted-average loan-to-value as of December 31, 2016.

| | 2015 | | | | |
|---|---|---|---|---|---|
| **(Dollar amounts in millions)** | **Total recorded investment** | **Number of loans** | **Loan-to-value** [(1)] | **Delinquent principal balance** | **Number of delinquent loans** |
| **Loan Year** | | | | | |
| 2004 and prior | $ 609 | 361 | 32% | $ | |
| 2005 | 542 | 146 | 49% | 5 | 1 |
| 2006 | 709 | 177 | 51% | 1 | 1 |
| 2007 | 540 | 146 | 59% | 6 | 1 |
| 2008 | 145 | 27 | 56% | | |
| 2009 | | | % | | |

| | | | | | |
|---|---|---|---|---|---|
| 2010 | 93 | 17 | 48% | | |
| 2011 | 226 | 48 | 49% | | |
| 2012 | 626 | 92 | 55% | | |
| 2013 | 822 | 138 | 58% | | |
| 2014 | 935 | 150 | 66% | | |
| 2015 | 940 | 142 | 67% | | |
| Total | $ 6,187 | 1,444 | 56% | $ 12 | 3 |

(1) Represents weighted-average loan-to-value as of December 31, 2015.

183

Table of Contents

*Restricted commercial mortgage loans related to securitization entities*

See notes 4 and 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to restricted commercial mortgage loans related to securitization entities.

*Other invested assets*

The following table sets forth the carrying values of our other invested assets as of December 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Derivatives | $ 708 | 34% | $ 1,112 | 48% |
| Trading securities | 259 | 13 | 447 | 19 |
| Securities lending collateral | 534 | 25 | 347 | 15 |
| Short-term investments | 352 | 17 | 197 | 9 |
| Limited partnerships | 199 | 10 | 188 | 8 |
| Other investments | 19 | 1 | 18 | 1 |
| Total other invested assets | $ 2,071 | 100% | $ 2,309 | 100% |

Derivatives decreased primarily attributable to changes in the long-term interest rate environment and from early terminations in 2016. Our investments in trading securities decreased from higher net sales. Securities lending collateral increased driven by market demand. Short-term investments increased principally from purchases exceeding sales and maturities in 2016.

*Derivatives*

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

| **(Notional in millions)** | **Measurement** | **December 31, 2015** | **Additions** | **Maturities/ terminations** | **December 31, 2016** |
|---|---|---|---|---|---|
| **Derivatives designated as hedges** | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swaps | Notional | $ 11,214 | $ 9,991 | $ (9,635) | $ 11,570 |
| Inflation indexed swaps | Notional | 571 | 1 | (572) | |
| Foreign currency swaps | Notional | 35 | | (13) | 22 |
| Total cash flow hedges | | 11,820 | 9,992 | (10,220) | 11,592 |
| Total derivatives designated as hedges | | 11,820 | 9,992 | (10,220) | 11,592 |

| | | | | | |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| Interest rate swaps | Notional | 4,932 | | (253) | 4,679 |
| Interest rate swaps related to securitization entities [(1)] | Notional | 67 | | (67) | |
| Foreign currency swaps | Notional | 162 | 146 | (107) | 201 |
| Credit default swaps | Notional | 144 | | (105) | 39 |
| Credit default swaps related to securitization entities [(1)] | Notional | 312 | | | 312 |
| Equity index options | Notional | 1,080 | 3,272 | (1,956) | 2,396 |
| Financial futures | Notional | 1,331 | 6,891 | (6,824) | 1,398 |
| Equity return swaps | Notional | 134 | 364 | (333) | 165 |
| Other foreign currency contracts | Notional | 1,656 | 3,478 | (2,004) | 3,130 |
| Total derivatives not designated as hedges | | 9,818 | 14,151 | (11,649) | 12,320 |
| Total derivatives | | $ 21,638 | $ 24,143 | $ (21,869) | $ 23,912 |

(1) See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to consolidated securitization entities.

Table of Contents

| (Number of policies) | Measurement | December 31, 2015 | Additions | Maturities/ terminations | December 31, 2016 |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| GMWB embedded derivatives | Policies | 36,146 | | (2,908) | 33,238 |
| Fixed index annuity embedded derivatives | Policies | 17,482 | 666 | (599) | 17,549 |
| Indexed universal life embedded derivatives | Policies | 982 | 167 | (75) | 1,074 |

The increase of $2.3 billion in the notional value of derivatives was attributable to an increase in our non-qualified equity options related to our hedging strategy associated with fixed index annuity insurance products and our non-qualified foreign currency interest rate swaps.

The number of policies related to our GMWB embedded derivatives decreased as variable annuity products are no longer being offered.

**Consolidated Balance Sheets**

*Total assets*. Total assets decreased $1,773 million from $106,431 million as of December 31, 2015 to $104,658 million as of December 31, 2016.

Cash, cash equivalents and invested assets decreased $740 million primarily from a decrease of $3,181 million in cash and cash equivalents, partially offset by an increase of $2,441 million in invested assets. Cash and cash equivalents decreased largely from the purchases of investments and the redemption of non-recourse funding obligations and long-term borrowings in 2016. Our fixed maturity securities increased $2,375 million principally from purchases exceeding proceeds from maturities and sales and an increase in unrealized investment gains attributable to changes in interest rates in 2016. Equity securities increased $322 million mainly from an increase in net trading activity in 2016.

Deferred acquisition costs decreased $827 million primarily related to higher net unrealized investment gains, including $439 million related to the deterioration of the loss recognition testing margin of our long-term care insurance block, excluding the acquired block, in 2016. The decrease was also attributable to higher amortization of $144 million in our universal and term universal life insurance products related to our annual review of assumptions in the fourth quarter of 2016, reflecting updated assumptions primarily for mortality experience in older age populations, partially offset by updated assumptions related to future policy charges.

Reinsurance recoverable increased $510 million mainly attributable to a new reinsurance agreement with Protective Life to coinsure certain of our term life insurance policies as part of a life block transaction completed in January 2016. As part of this transaction, we recorded a deferred gain, which was approximately $64 million as of December 31, 2016. In addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance reinsurance recoverables by $222 million in the fourth quarter of 2016.

Deferred tax asset decreased $155 million primarily from an increase in the valuation allowance in 2016.

Separate account assets decreased $584 million principally driven by surrenders and benefits in the account values of our runoff block of variable annuity products in 2016.

*Total liabilities*. Total liabilities decreased $1,603 million from $91,794 million as of December 31, 2015 to $90,191 million as of December 31, 2016.

Future policy benefits increased $588 million primarily driven by an increase in our long-term care insurance business largely from the aging and growth of the in-force block in 2016.

Table of Contents

Policyholder account balances decreased $547 million largely as a result of surrenders in our fixed annuities business, partially offset by higher reserves of $202 million in our universal and term universal life insurance products related to our annual review of assumptions in the fourth quarter of 2016, reflecting updated assumptions primarily for mortality experience in older age populations.

Liability for policy and contract claims increased $1,161 million mainly attributable to an increase of $1,285 million in our long-term care insurance business largely from our annual review of assumptions which increased claim reserves by $460 million. As a result of this review, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in 2016. In addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance claim reserves by $222 million in the fourth quarter of 2016. These increases were partially offset by a decrease of $214 million in our U.S. mortgage insurance business principally from a decline in new delinquencies and favorable aging on existing delinquencies in 2016.

Non-recourse funding obligations decreased $1,610 million as a result of early redemptions of non-recourse funding obligations for River Lake and River Lake II related to a life block transaction completed in 2016.

Long-term borrowings decreased $390 million primarily attributable to the redemption of $298 million of Genworth Holdings 2016 senior notes in January 2016 and the repurchase of $28 million principal of Genworth Holdings senior notes with 2021 maturity dates during the three months ended March 31, 2016. The decrease was also related to $40 million of bond consent fees paid as part of Genworth Holdings bond consent solicitation. Genworth Financial Mortgage Insurance Pty Limited redeemed $36 million of subordinated floating rate notes due in 2021. These decreases were partially offset by an increase of $8 million from changes in foreign exchange rates on debt in Canada and Australia.

Separate account liabilities decreased $584 million principally driven by surrenders in the account values of our runoff block of variable annuity products in 2016.

*Total equity*. Total equity decreased $170 million from $14,637 million as of December 31, 2015 to $14,467 million as of December 31, 2016.

We reported a net loss available to Genworth Financial, Inc. s common stockholders of $277 million during the year ended December 31, 2016.

Accumulated other comprehensive income (loss) increased $84 million predominantly attributable to $40 million of higher derivatives qualifying as hedges driven mostly by changes in long-term interests and from an increase of $36 million in foreign currency translation and other adjustments principally from the recognition of currency translation adjustments related to the sale of our European mortgage insurance business in 2016.

**Liquidity and Capital Resources**

Liquidity and capital resources represent our overall financial strength and our ability to generate cash flows from our businesses, borrow funds at competitive rates and raise new capital to meet our operating and growth needs.

186

Table of Contents

*Genworth and subsidiaries*

The following table sets forth our condensed consolidated cash flows for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net cash from operating activities | $ 1,852 | $ 1,591 | $ 2,438 |
| Net cash from investing activities | (2,120) | (404) | (1,836) |
| Net cash from financing activities | (2,931) | (42) | 205 |
| Net increase (decrease) in cash before foreign exchange effect | $ (3,199) | $ 1,145 | $ 807 |

Our principal sources of cash include sales of our products and services, income from our investment portfolio and proceeds from sales of investments. As an insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed policy acquisition costs, benefits paid, redemptions and operating expenses. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. Positive cash flows from operating activities are then invested to support the obligations of our insurance and investment products and required capital supporting these products. In analyzing our cash flow, we focus on the change in the amount of cash available and used in investing activities. Changes in cash from financing activities primarily relate to the issuance of, and redemptions and benefit payments on, universal life insurance and investment contracts; the issuance and acquisition of debt and equity securities; the issuance and repayment or repurchase of borrowings and non-recourse funding obligations; and other capital transactions.

We had higher cash inflows from operating activities in 2016 mainly attributable to net proceeds from the sale of trading securities and cash received as a result of the change in the derivative positions in 2016. This increase was partially offset by amounts paid related to a new reinsurance agreement in our life insurance business. We also paid amounts related to the settlement of *In re Genworth Financial, Inc. Securities Litigation* and fees associated with Genworth Holdings bond consent solicitation.

We had higher cash outflows from investing activities in 2016 primarily as the result of higher purchases in excess of maturities and sales of fixed maturity securities and the purchase of policy loans. This outflow was partially offset by net proceeds from the sale of our European mortgage insurance business and the sale of assets to Pac Life as well as net repayments of commercial mortgage loans in 2016 compared to net originations in 2015.

We had higher cash outflows from financing activities in 2016 principally from the redemption of $1,620 million of non-recourse funding obligations. Genworth Holdings also repaid and repurchased $326 million of its senior notes in 2016. Cash outflows from financing activities were also as a result of withdrawals exceeding deposits of our investment contracts in 2016. Included in 2015 were proceeds from the sale of additional shares of our Australian mortgage insurance business.

In the United States and Canada, we engage in certain securities lending transactions for the purpose of enhancing the yield on our investment securities portfolio. We maintain effective control over all loaned securities and, therefore, continue to report such securities as fixed maturity securities on the consolidated balance sheets. We are currently indemnified against counterparty credit risk by the intermediary. See note 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to our securities lending program.

We also have a repurchase program in which we sell an investment security at a specified price and agree to repurchase that security at another specified price at a later date. See note 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to our repurchase program.

187

*Genworth holding company*

Genworth Financial and Genworth Holdings each acts as a holding company for their respective subsidiaries and do not have any significant operations of their own. Dividends from their respective subsidiaries, payments to them under tax sharing and expense reimbursement arrangements with their subsidiaries and proceeds from borrowings or securities issuances are their principal sources of cash to meet their obligations. Insurance laws and regulations regulate the payment of dividends and other distributions to Genworth Financial and Genworth Holdings by their insurance subsidiaries. We expect dividends paid by the insurance subsidiaries will vary depending on strategic objectives, regulatory requirements and business performance.

The primary uses of funds at Genworth Financial and Genworth Holdings include payment of holding company general operating expenses (including taxes), payment of principal, interest and other expenses on current and any future borrowings, payments under current and any future guarantees (including guarantees of certain subsidiary obligations), payment of amounts owed to GE under the Tax Matters Agreement, payments to subsidiaries (and, in the case of Genworth Holdings, to Genworth Financial) under tax sharing agreements, contributions to subsidiaries, repurchases of debt securities and, in the case of Genworth Holdings, loans, dividends or other distributions to Genworth Financial. In deploying future capital, important current priorities include focusing on our operating businesses so they remain appropriately capitalized, and accelerating progress on reducing overall indebtedness of Genworth Holdings. We may from time to time seek to repurchase or redeem outstanding notes for cash (with cash on hand, proceeds from the issuance of new debt and/or the proceeds from asset or stock sales) in open market purchases, tender offers, privately negotiated transactions or otherwise. We currently seek to reduce our indebtedness over time through repurchases, redemptions and/or repayments at maturity.

Our Board of Directors has suspended the payment of stockholder dividends on our Genworth Financial common stock indefinitely. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will be dependent on many factors including the receipt of dividends from our operating subsidiaries, our financial condition and operating results, the capital requirements of our subsidiaries, legal requirements, regulatory constraints, our credit and financial strength ratings and such other factors as the Board of Directors deems relevant. In addition, our Board of Directors has suspended repurchases of our Genworth Financial common stock under our stock repurchase program indefinitely. The resumption of our stock repurchase program will be at the discretion of our Board of Directors.

Genworth Holdings had $998 million and $1,124 million of cash and cash equivalents as of December 31, 2016 and 2015, respectively. Genworth Holdings also held $100 million and $250 million in U.S. government securities as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, cash and cash equivalents of Genworth Holdings included approximately $85 million and $89 million of restricted assets, which consist primarily of U.S. government securities and cash.

During the years ended December 31, 2016, 2015 and 2014, Genworth Holdings received cash dividends from its international subsidiaries of $250 million, $522 million and $630 million, respectively. Dividends in 2016 included $76 million for our portion of the AUD$202 million capital reduction in Genworth Mortgage Insurance Australia Limited in the second quarter of 2016. Dividends from our international subsidiaries in 2015 included $173 million of proceeds from the sale of additional shares in our Australian mortgage insurance business in May 2015 and approximately $50 million of the remaining proceeds were distributed to Genworth Holdings through payments made under tax sharing agreements in the third quarter of 2015. Dividends from our international subsidiaries in 2014 included approximately $500 million from the net proceeds of the IPO of our Australian mortgage insurance business. There were no dividends paid to Genworth Holdings by its domestic subsidiaries during the years ended December 31, 2016, 2015 or 2014. We expect our international subsidiaries to be the sole source of cash dividends paid to us in 2017 as we continue to strengthen the capital position of our U.S. mortgage insurance business. We do not expect our U.S. life insurance businesses to provide dividends to our holding companies in the foreseeable future.

188

Table of Contents

Genworth Holdings also made capital contributions to one of its life subsidiaries of $25 million during 2015. In December 2015, Genworth Holdings also received cash of approximately $325 million of proceeds from the sale of the lifestyle protection insurance business through intercompany payments.

The life block transaction completed in January 2016 generated approximately $175 million of tax benefits to the holding company in July 2016, which are committed to be used as part of any restructuring plan for our U.S. life insurance businesses.

In July 2015, Genworth Holdings purchased for approximately $200 million preferred securities of one of our life insurance subsidiaries that were previously held by our U.S. mortgage insurance subsidiaries. Genworth Holdings received dividends of approximately $8 million from these preferred securities in 2015. Beginning in 2016, these preferred stock dividends were deferred.

Genworth Holdings provides capital support to some of its insurance subsidiaries in the form of guarantees of certain obligations, in some cases subject to annual scheduled adjustments, which totaled up to $356 million as of December 31, 2016. We believe Genworth Holdings insurance subsidiaries have adequate reserves to cover the underlying obligations. This capital support primarily included:

- A capital support agreement of up to $218 million with one of Genworth Holdings insurance subsidiaries to fund claims to support its mortgage insurance business in Mexico;

- A capital support agreement of up to $100 million, as part of the capital plan for the U.S. mortgage insurance subsidiaries, to be provided to GMICO in the future in the event that certain adverse events occur. This capital support agreement was terminated in January 2017.

Genworth Holdings provides a limited guarantee to Rivermont Life Insurance Company I ( Rivermont I ), an indirect subsidiary, which is accounted for as a derivative carried at fair value and is eliminated in consolidation. As of December 31, 2016, the fair value of this derivative was approximately $1 million.

Genworth Holdings provided an unlimited guarantee for the benefit of policyholders for the payment of valid claims by our European mortgage insurance subsidiary prior to its sale in May 2016. Following the sale of this U.K. subsidiary to AmTrust Financial Services, Inc., the guarantee is now limited to the payment of valid claims on policies in-force prior to the sale date and those written approximately 90 days subsequent to the date of the sale, and AmTrust Financial Services, Inc. has agreed to provide us with a limited indemnification in the event there is any exposure under the guarantee. As of December 31, 2016, the risk in-force of the business subject to the guarantee was approximately $2.0 billion.

Genworth Holdings has a Tax Matters Agreement with GE, our former parent company, which represents an obligation of Genworth Holdings to GE. The balance of this obligation was $173 million as of December 31, 2016.

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior notes and the holders of the senior notes, on an unsecured unsubordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, each outstanding series of senior notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the senior notes indenture in respect of such senior notes. Genworth Financial also provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding subordinated notes and the holders of the subordinated notes, on an unsecured subordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, the outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the subordinated notes indenture in respect of the subordinated notes. Genworth Financial also provides a full and unconditional guarantee of Genworth Holdings obligations associated with Rivermont I and the Tax Matters Agreement.

We also provided guarantees to third parties for the performance of certain obligations of our subsidiaries. We estimate that our potential obligations under such guarantees were $9 million and $25 million as of December 31, 2016 and 2015, respectively.

**Table of Contents**

*Regulated insurance subsidiaries*

Insurance laws and regulations regulate the payment of dividends and other distributions to us by our insurance subsidiaries. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance regulatory approval. Based on estimated statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $220 million to us in 2017 without obtaining regulatory approval. However, our insurance subsidiaries may not pay dividends to us in 2017 at this level if they need to retain capital for growth and to meet capital requirements.

Our international insurance subsidiaries paid dividends of $457 million, $640 million and $630 million during the years ended December 31, 2016, 2015 and 2014, respectively.

Our domestic insurance subsidiaries paid dividends of $80 million, $41 million and $108 million, respectively, during the years ended December 31, 2016, 2015 and 2014. None of the dividends paid were deemed extraordinary. All such amounts were paid to our principal life insurance subsidiaries rather than to a holding company. In addition, GLIC paid a preferred stock dividend of approximately $8 million to Genworth Holdings in 2015.

The liquidity requirements of our regulated insurance subsidiaries principally relate to the liabilities associated with their various insurance and investment products, operating costs and expenses, the payment of dividends to us, contributions to their subsidiaries, payment of principal and interest on their outstanding debt obligations and income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans and obligations to redeem funding agreements.

Our insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. Our insurance subsidiaries principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income, including commissions, cost of insurance, mortality, expense and surrender charges, contract underwriting fees, investment management fees and dividends and distributions from their subsidiaries. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance and long-term care insurance policies, are matched with investments having similar duration such as long-term fixed maturity securities and commercial mortgage loans. Shorter-term liabilities are matched with fixed maturity securities that have short- and medium-term fixed maturities. In addition, our insurance subsidiaries hold highly liquid, high quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals. As of December 31, 2016, our total cash, cash equivalents and invested assets were $74.4 billion. Our investments in privately placed fixed maturity securities, commercial mortgage loans, policy loans, limited partnership investments and select mortgage-backed and asset-backed securities are relatively illiquid. These asset classes represented approximately 32% of the carrying value of our total cash, cash equivalents and invested assets as of December 31, 2016.

As of December 31, 2016, each of our life insurance subsidiaries exceeded the minimum required RBC levels. The consolidated RBC ratio of our U.S. domiciled life insurance subsidiaries was approximately 329% as of December 31, 2016.

To address the capital needs of our U.S. life insurance businesses, we currently intend to continue, among other things, to not pay dividends from our life insurance subsidiaries to the holding company.

As of December 31, 2016 and 2015, one of our wholly-owned life insurance subsidiaries provided security in an aggregate amount of $28 million and $583 million, respectively, for the benefit of certain of its wholly-

190

owned life insurance subsidiaries that have issued non-recourse funding obligations to collateralize the obligation to make future payments on their behalf under certain tax sharing agreements.

In April 2016, Genworth Canada announced acceptance by the TSX of its Notice of Intention to Make a Normal Course Issuer Bid ( NCIB ). Pursuant to the NCIB, Genworth Canada may, if considered advisable, purchase from time to time through May 4, 2017, up to an aggregate of approximately 4.6 million of its issued and outstanding common shares. If Genworth Canada decides to repurchase shares through the NCIB, we intend to participate in the NCIB in order to maintain our overall ownership at its current level. In 2015, Genworth Canada repurchased 1.4 million of its shares for CAD$50 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage and received $23 million in cash. During 2014, Genworth Canada repurchased 1.9 million shares for CAD$75 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage at its then current level and received $38 million in cash.

On October 30, 2015, Genworth Australia announced its intention to commence an on-market share buy-back program. Pursuant to the program, in November and December 2015, Genworth Australia repurchased 54.6 million of its shares for AUD$150 million. As the majority shareholder, we participated in on-market sales transactions during the buy-back period to maintain our ownership position of 52.0% and received $55 million in cash.

As of December 31, 2016 and 2015, our U.S. mortgage insurance business was compliant with the PMIERs capital requirements, with a prudent buffer. Our U.S. mortgage insurance business executed two excess of loss reinsurance transactions with a panel of reinsurers covering current and expected new insurance written for the 2016 and 2017 book years. The reinsurance transaction covering our 2016 book year and the three reinsurance transactions executed during 2015, covering our 2009 through 2015 book years, provided an aggregate of approximately $530 million of PMIERs capital credit as of December 31, 2016. Our U.S. mortgage insurance business may execute future capital transactions to maintain a prudent level of financial flexibility in excess of the PMIERs capital requirements given the dynamic nature of asset and requirement valuations over time, including additional reinsurance transactions and contributions of holding company cash.

*Capital resources and financing activities*

On May 20, 2016, Genworth Canada, our majority-owned subsidiary, entered into a CAD$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under Genworth Canada s credit facility will bear interest at a rate per annum equal to, at the option of Genworth Canada, either a fixed rate or a variable rate pursuant to the terms of the credit agreement. Genworth Canada s credit facility includes customary representations, warranties, covenants, terms and conditions. As of December 31, 2016, there was no amount outstanding under Genworth Canada s credit facility.

In April 2016, Genworth Holdings terminated its $300 million multicurrency revolving credit facility, prior to its September 26, 2016 maturity date. There were no amounts outstanding under the credit facility at the time of termination.

In January 2016, Genworth Holdings redeemed $298 million of its 2016 Notes and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest. During the three months ended March 31, 2016, we also repurchased $28 million principal amount of Genworth Holdings notes with 2021 maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon. During the third quarter of 2015, Genworth Holdings repurchased $50 million aggregate principal amount of its senior notes for a pre-tax loss of $1 million and paid accrued and unpaid interest thereon.

In June 2016, Genworth Financial Mortgage Insurance Pty Limited, our indirect majority-owned subsidiary, redeemed all of its outstanding AUD$50 million of subordinated floating rate notes with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 4.75% due 2021. In July 2015, Genworth Financial Mortgage Insurance Pty Limited, our indirect majority-owned subsidiary, issued AUD$200 million of subordinated floating rate notes due 2025 with an interest rate of three-month Bank Bill Swap reference rate plus

191

**Table of Contents**

a margin of 3.50%. Genworth Financial Mortgage Insurance Pty Limited used the proceeds it received from this transaction to redeem AUD$90 million of its outstanding debt and for general corporate purposes and incurred a $2 million pre-tax early redemption payment.

During the three months ended March 31, 2016, in connection with a life block transaction, River Lake redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake II redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs. During 2015, River Lake repaid $30 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake II repaid $31 million of its total outstanding floating rate subordinated notes due in 2035.

For further information about our borrowings, refer to note 12 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

We believe existing cash held at Genworth Holdings combined with dividends from operating subsidiaries, payments under tax sharing and expense reimbursement arrangements with subsidiaries, proceeds from borrowings or securities issuances and, if necessary, sales of assets, as described below, will provide us with sufficient capital flexibility and liquidity to meet our projected future operating and financing requirements. We actively monitor our liquidity position, liquidity generation options and the credit markets given changing market conditions. We target liquidity at Genworth Holdings to maintain a minimum balance of one and one-half times expected annual debt interest payments plus an additional $350 million. As of December 31, 2016, Genworth Holdings was above this target due in part to intercompany tax payments of approximately $300 million received from its subsidiaries in 2016. We will continue to evaluate our target level of liquidity as circumstances warrant and may move above or below the target for a period of time given future actions and due to the timing of cash inflows and outflows. Additionally, we will continue to evaluate market influences on the valuation of our senior debt, and may consider additional opportunities to repurchase our debt over time. We cannot predict with any certainty the impact to us from any future disruptions in the credit markets or the recent or any further downgrades by one or more of the rating agencies of the financial strength ratings of our insurance company subsidiaries and/or the credit ratings of our holding companies. In the absence of the China Oceanwide transaction or in the event we are unable to refinance our debt maturities, we may be required to pursue asset sales, including potential sales of our mortgage insurance businesses in Canada and Australia and/or a partial sale of our U.S. mortgage insurance business to service our holding company debt. The availability of additional funding will depend on a variety of factors such as market conditions, regulatory considerations, the general availability of credit, the overall availability of credit to the financial services industry, the level of activity and availability of reinsurance, our credit ratings and credit capacity and the performance of and outlook for our business. For a discussion of certain risks associated with our liquidity, see Part I Item 1A Risk Factors Our internal sources of liquidity may be insufficient to meet our needs and our access to capital may be limited or unavailable. Under such conditions, we may seek additional capital but may be unable to obtain it.

*Contractual obligations and commercial commitments*

We enter into obligations with third parties in the ordinary course of our operations. These obligations, as of December 31, 2016, are set forth in the table below. However, we do not believe that our cash flow requirements can be assessed based upon this analysis of these obligations as the funding of these future cash obligations will be from future cash flows from premiums, deposits, fees and investment income that are not reflected in the following table. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable rate borrowings and insurance liabilities that depend on future interest rates and market performance. Many of our obligations are linked to cash-generating contracts. These obligations include payments to contractholders that assume those contractholders will continue to make deposits in accordance with the terms of their contracts. In addition, our operations involve significant expenditures that are not based upon commitments.

Table of Contents

| (Amounts in millions) | Total | 2017 | 2018-2019 | 2020-2021 | 2022 and thereafter |
|---|---|---|---|---|---|
| | Payments due by period | | | | |
| Borrowings and interest [1] | $ 7,221 | $ 267 | $ 1,072 | $ 2,060 | $ 3,822 |
| Operating lease obligations | 52 | 15 | 21 | 7 | 9 |
| Other purchase liabilities [2] | 56 | 36 | 19 | 1 | |
| Securities lending and repurchase obligations [3] | 609 | 609 | | | |
| Commercial mortgage loan commitments [4] | 39 | 39 | | | |
| Limited partnership commitments [4] | 201 | 72 | 75 | 51 | 3 |
| Private placement commitments [4] | 34 | 34 | | | |
| Insurance liabilities [5] | 125,005 | 3,108 | 5,006 | 4,699 | 112,192 |
| Tax matters agreement [6] | 164 | 43 | 61 | 29 | 31 |
| Unrecognized tax benefits [7] | 34 | 2 | | | 32 |
| Total contractual obligations | $ 133,415 | $ 4,225 | $ 6,254 | $ 6,847 | $ 116,089 |

(1) Includes payments of principal and interest on our long-term borrowings and non-recourse funding obligations, as described in note 12 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data. For our U.S. domiciled insurance companies, any payment of principal, including by redemption, or interest on our non-recourse funding obligations are subject to regulatory approval. The total amount for borrowings and interest in this table does not equal the amounts on our consolidated balance sheet as it excludes debt issuance costs and includes interest that is expected to be payable in future years. In addition, the total amount does not include borrowings related to securitization entities. See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for information related to the timing of payments and the maturity dates of these borrowings.

(2) Includes contractual purchase commitments for goods and services entered into in the ordinary course of business and includes obligations under our pension liabilities.

(3) The timing for the return of the collateral associated with our securities lending program is uncertain; therefore, the return of collateral is reflected as being due in 2017.

(4) Includes amounts we are committed to fund for U.S. commercial mortgage loans, interests in limited partnerships and private placement investments.

(5) Includes estimated claim and benefit, policy surrender and commission obligations offset by expected future deposits and premiums on in-force insurance policies and investment contracts. Also includes amounts established for recourse and indemnification related to our U.S. mortgage insurance contract underwriting business. Estimated claim and benefit obligations are based on mortality, morbidity, lapse and other assumptions. The obligations in this table have not been discounted at present value. In contrast to this table, our obligations reported in our consolidated balance sheet are recorded in accordance with U.S. GAAP where the liabilities are discounted consistent with the present value concept under accounting guidance related to accounting and reporting by insurance enterprises, as applicable. Therefore, the estimated obligations for insurance liabilities presented in this table significantly exceed the liabilities recorded in reserves for future policy benefits and the liability for policy and contract claims. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. We have not included separate account obligations as these obligations are legally insulated from general account obligations and will be fully funded by cash flows from separate account assets. We expect to fully fund the obligations for insurance liabilities from cash flows from general account investments and future deposits and premiums.

(6)

Because their future cash outflows are uncertain, the following non-current liabilities are excluded from this table: deferred taxes (except the Tax Matters Agreement, which is included, as described in note 13 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data ), derivatives, unearned premiums and certain other items.

(7) Includes the settlement of uncertain tax positions, with related interest, based on the estimated timing of the resolution of income tax examinations in multiple jurisdictions. See notes 2 and 13 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for a discussion of uncertain tax positions.

193

Table of Contents

**Off-Balance Sheet Transactions**

We have used off-balance sheet securitization transactions to mitigate and diversify our asset risk position and to adjust the asset class mix in our investment portfolio by reinvesting securitization proceeds in accordance with our approved investment guidelines. The transactions we have used involved securitizations of some of our receivables and investments that were secured by commercial mortgage loans, fixed maturity securities or other receivables, consisting primarily of policy loans. Total securitized assets remaining as of December 31, 2016 and 2015 were $129 million and $403 million, respectively, including $129 million and $267 million, respectively, of securitized assets required to be consolidated. Securitization transactions typically result in gains or losses that are included in net investment gains (losses) in our consolidated financial statements. There were no off-balance sheet securitization transactions executed in 2016, 2015 or 2014.

We have arranged for the assets that we have transferred in securitization transactions to be serviced by us directly, or pursuant to arrangements with a third-party service provider. Servicing activities include ongoing review, credit monitoring, reporting and collection activities.

Financial support for certain securitization entities was provided under credit support agreements that remain in place throughout the life of the related entities. Assets with credit support were funded by demand notes that were further enhanced with support provided by a third party. See note 17 to our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information related to securitization entities.

**Seasonality**

In general, our business as a whole is not seasonal in nature. However, in our U.S. mortgage insurance business, the level of delinquencies, which increases the likelihood of losses, generally tends to decrease in mid-first quarter and continue through second quarter while increasing in the third and fourth quarters of the calendar year. Therefore, we typically experience lower levels of losses resulting from delinquencies in the first and second quarters, as compared with those in the third and fourth quarters. Currently, as the U.S. housing market continues to stabilize and recover, delinquency levels are trending downward and returning to more normal seasonal trends. As the U.S. economy continues recovering, we may see higher than usual delinquencies as the housing market returns to a more normal development pattern long-term. See U.S. Mortgage Insurance segment Trends and conditions for additional information related to our U.S. mortgage insurance business.

There is also modest delinquency seasonality in our mortgage insurance businesses in Australia and Canada. In Australia, we generally experience higher new delinquencies and lower cure rates in the first and second quarters of each calendar year. In Canada, we generally experience modestly higher delinquencies in the winter months. See Canada Mortgage Insurance segment Trends and conditions and Australia Mortgage Insurance segment Trends and conditions for additional information related to these businesses.

Table of Contents

## Inflation

We do not believe that inflation has had a material effect on our results of operations, except insofar as inflation may affect interest rates or foreign exchange rates.

## New Accounting Standards

For a discussion of recently adopted and not yet adopted accounting standards, see note 2 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. The following is a discussion of our market risk exposures and our risk management practices.

In 2016, U.S. Treasury yields remained at historically low levels but rose in the fourth quarter of 2016 by as much as 40 basis points in response to the U.S. Presidential election and was further supported by a 25 basis point hike in the Federal Reserve policy rate. Global yields followed the U.S. bond markets higher and equity markets rose, particularly in the U.S., founded on expectations of robust fiscal stimulus coupled with business oriented economic policy changes leading global economic growth higher. See Investments and Derivative Instruments in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion of recent market conditions.

We are exposed to foreign currency exchange risks associated with fluctuations in foreign currency exchange rates against the U.S. dollar resulting from our international operations and non-U.S.-denominated securities. Our primary international operations are located in Canada and Australia. The assets and liabilities of our international operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, while revenues and expenses of our international operations are translated into U.S. dollars at the average rates of exchange during the period of the transaction. In general, the weakening of the U.S. dollar results in higher levels of reported assets, liabilities, revenues and net income (loss). As of December 31, 2016, the U.S. dollar weakened against the currency in Canada but strengthened against the currency in Australia compared to the balance sheet rate as of December 31, 2015. For the year ended December 31, 2016, the U.S. dollar strengthened against the currencies in Canada and Australia compared to the average rate for the year ended December 31, 2015. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion on the impact changes in foreign currency exchange rates have had during the year.

While we enter into derivatives to mitigate certain market risks, our agreements with derivative counterparties and futures commission merchants require that we provide collateral as initial margin as well as variation margin to reflect changes in the fair value of our derivatives. We may hold more high-quality securities to ensure we have sufficient collateral to post to derivative counterparties or futures commission merchants in the event of adverse changes in the fair value of our derivative instruments. If we do not have sufficient high quality securities to provide as collateral, we may need to sell certain other securities to purchase assets that would be eligible for collateral posting, which could adversely impact our future investment income.

*Interest Rate Risk*

We enter into market-sensitive instruments primarily for purposes other than trading. Our life insurance, long-term care insurance and deferred annuity products have significant interest rate risk and are associated with our U.S. life insurance subsidiaries. Our mortgage insurance businesses in Canada and Australia and immediate

195

annuity products have moderate interest rate risk, while our U.S. mortgage insurance business has relatively low interest rate risk.

The significant interest rate risk that is present in our life insurance, long-term care insurance and deferred annuity products is a result of longer duration liabilities where a significant portion of cash flows to pay benefits comes from investment returns. Additionally, certain of these products have implicit and explicit rate guarantees or optionality that is significantly impacted by changes in interest rates. We seek to minimize interest rate risk by purchasing assets to better align the duration of our assets with the duration of the liabilities or utilizing derivatives to mitigate interest rate risk for product lines where asset durations are not sufficient to align with the related liability. Additionally, we also minimize certain of these risks through product design features.

Our insurance and investment products are sensitive to interest rate fluctuations and expose us to the risk that falling interest rates or tightening credit spreads will reduce our interest rate margin (the difference between the returns we earn on the investments that support our obligations under these products and the amounts that we must pay to policyholders and contractholders). Because we may reduce the interest rates we credit on most of these products only at limited, pre-established intervals, and because some contracts have guaranteed minimum interest crediting rates, declines in earned investment returns can impact the profitability of these products. As of December 31, 2016, of our $11.8 billion deferred annuity products, $0.8 billion have guaranteed minimum interest crediting rate floors greater than or equal to 3.5%, with less than $2 million guaranteed minimum interest crediting rate floors greater than 5.5%. Most of these products were sold prior to 1999. Our universal life insurance products also have guaranteed minimum interest crediting rate floors, with no guaranteed minimum interest crediting rate floors greater than 6.0%. Of our $7.0 billion of universal life insurance products as of December 31, 2016, $4.1 billion have guaranteed minimum interest crediting rate floors ranging between 3% and 4%.

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

Our life and long-term care insurance products as well as our guaranteed benefits on variable annuities also expose us to the risk of interest rate fluctuations. The pricing and expected future profitability of these products are based in part on expected investment returns. Over time, life and long-term care insurance products are expected to generally produce positive cash flows as customers pay periodic premiums, which we invest as they are received. Low interest rates increase reinvestment risk and reduce our ability to achieve our targeted investment margins and may adversely affect the profitability of our life insurance, fixed annuity and long-term care insurance products and may increase hedging costs on our in-force block of variable annuity products. A prolonged low interest rate environment may negatively impact the sufficiency of our margins on our DAC and PVFP, which could result in an impairment. In addition, certain statutory capital requirements are based on models that consider interest rates. Prolonged periods of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

The carrying value of our investment portfolio as of December 31, 2016 and 2015 was $71.6 billion and $69.1 billion, respectively, of which 85% and 84%, respectively, was invested in fixed maturity securities. The primary market risk to our investment portfolio is interest rate risk associated with investments in fixed maturity securities. We mitigate the market risk associated with our fixed maturity securities portfolio by matching the duration of our fixed maturity securities with the duration of the liabilities that those securities are intended to support.

196

Table of Contents

Interest rate fluctuations also could have an adverse effect on the results of our investment portfolio. During periods of declining market interest rates, the interest we receive on variable interest rate investments decreases. In addition, during those periods, we reinvest the cash we receive as interest or return of principal on our investments in lower-yielding high-grade instruments or in lower- credit instruments to maintain comparable returns. For example, during the fourth quarter of 2016, we reinvested $3.1 billion at an average rate of 3.2% as compared to our annualized weighted-average investment yield of 4.6%. Issuers of fixed-income securities may also decide to prepay their obligations in order to borrow at lower market rates, which exacerbates the risk that we may have to invest the cash proceeds of these securities in lower-yielding or lower-credit instruments. During periods of increasing interest rates, market values of lower-yielding assets will decline. In addition, our interest rate hedges will decline which will require us to post additional collateral with our derivative counterparties.

The primary market risk for our long-term borrowings is interest rate risk at the time of maturity or early redemption, when we may be required to refinance these obligations. We continue to monitor the interest rate environment and to evaluate refinancing opportunities as maturity dates approach. While we are exposed to interest rate risk from certain variable rate long-term borrowings and non-recourse funding obligations, in certain instances we invest in variable rate assets to back those obligations to mitigate the interest rate risk from the variable interest payments.

We use derivative instruments, such as interest rate swaps, financial futures and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate certain interest rate risk by:

- reducing the risk between the timing of the receipt of cash and its investment in the market;
- extending or shortening the duration of assets to better align with the duration of the liabilities; and
- protecting against the early termination of an asset or liability.

As a matter of policy, we have not and will not engage in derivative market-making, speculative derivative trading or other speculative derivatives activities.

Assuming investment yields remain at the 2016 levels for an extended period of time and based on our existing policies and investment portfolio as of December 31, 2016, we estimate the impact from investing in that lower interest rate environment could reduce our investment income by approximately $15 million, $40 million and $70 million in 2017, 2018 and 2019, respectively, before considering the impact from taxes or DAC and other adjustments. The above impacts do not include or contemplate any potential changes in crediting rates to policyholders, evaluation of reserve adequacy or unlocking of DAC.

*Equity Market Risk*

Our exposure to equity market risk within our insurance companies primarily relates to variable annuities and life products and certain equity linked products. Certain variable annuity products have living benefit guarantees that expose us to equity market risk if the performance of the underlying mutual funds in the separate account products experience downturns and volatility for an extended period of time potentially resulting in more payments from general account assets than from contractholder separate account investments. Additionally, continued equity market volatility could result in additional losses in our variable annuity products and associated hedging program which will further challenge our ability to recover DAC on these products and could lead to write-offs of DAC, as well as increased hedging costs. Downturns in equity markets could also lead to an increase in liabilities associated with secondary guarantee features, such as guaranteed minimum benefits on separate account products, where we have equity market risk exposure.

We are exposed to equity risk on our holdings of common stocks and other equities, as well as risk on products where we have equity market risk exposure. We manage equity price risk through industry and issuer diversification, asset allocation techniques and hedging strategies.

Table of Contents

We use derivative instruments, such as financial futures and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate equity risk by reducing our exposure to fluctuations in equity market indices that underlie some of our products.

*Foreign Currency Risk*

We also have exposure to foreign currency exchange risk. Our international operations generate revenues denominated in local currencies, and we invest cash generated outside the United States in non-U.S.-denominated securities. As of December 31, 2016 and 2015, approximately 10% and 9%, respectively, of our invested assets were held by our international operations and we invest cash generated in those operations in securities denominated in the same local currencies. Although investing in securities denominated in local currencies limits the effect of currency exchange rate fluctuation on local operating results, we remain exposed to the impact of fluctuations in exchange rates as we translate the operating results of our foreign operations in our consolidated financial statements. We currently do not hedge the translation of operating results for our international operations. For the years ended December 31, 2016, 2015 and 2014, our international operations generated $376 million, $441 million and $364 million, respectively, of our income (loss) from continuing operations, excluding net investment gains (losses). Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile. Non- U.S. currency fluctuations also affect the value of any dividends paid by our non-U.S. subsidiaries to their parent companies in the United States.

We use derivative instruments, such as foreign currency swaps, financial futures and option-based financial instruments, as part of our risk management strategy. We use these derivatives to mitigate certain foreign currency risks by:

- matching the currency of invested assets with the liabilities they support;
- converting certain non-functional currency investments into functional currency; and
- hedging certain near-term foreign currency dividends or cash flows expected from international subsidiaries.

***Sensitivity Analysis***

Sensitivity analysis measures the impact of hypothetical changes in interest rates, foreign exchange rates and other market rates or prices on the profitability of market-sensitive financial instruments.

The following discussion about the potential effects of changes in interest rates, foreign currency exchange rates and equity market prices is based on so-called shock-tests, which model the effects of interest rate, foreign currency exchange rate and equity market price shifts on our financial condition and results of operations. Although we believe shock-tests provide the most meaningful analysis permitted by the rules and regulations of the SEC, they are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by their inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of shock-tests for changes in interest rates, foreign currency exchange rates and equity market prices may have some limited use as benchmarks, they should not be viewed as forecasts. These forward-looking disclosures also are selective in nature and address only the potential impacts on our financial instruments. For the purpose of this sensitivity analysis, we excluded the potential impacts on our insurance liabilities that are not considered financial instruments, with the exception of those insurance liabilities that have embedded derivatives that are required to be bifurcated in accordance with U.S. GAAP. In addition, this sensitivity analysis does not include a variety of other potential factors that could affect our business as a result of these changes in interest rates, foreign currency exchange rates and equity market prices.

Table of Contents

*Interest Rate Risk*

One means of assessing exposure to interest rate changes is a duration-based analysis that measures the potential changes in fair value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This is referred to as a parallel shift in the yield curve. Note that all impacts noted below exclude any effects of deferred taxes, DAC and PVFP unless otherwise noted.

Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the fair value of our fixed-income securities portfolio to decrease by approximately $4.3 billion based on our securities positions as of December 31, 2016, as compared to an estimated decrease of $4.0 billion under this model as of December 31, 2015. The results of this parallel shift in the yield curve would cause the fair value of our commercial mortgage loans to decrease by approximately $358 million based on our commercial mortgage loans as of December 31, 2016, as compared to an estimated decrease of $342 million as of December 31, 2015.

We performed a similar sensitivity analysis on our derivatives portfolio and noted that a 100 basis point increase in interest rates resulted in a decrease in fair value of $689 million based on our derivatives portfolio as of December 31, 2016, as compared to an estimated decline of $709 million under this model as of December 31, 2015. The estimated decrease in fair value of our derivatives portfolio would also require us to post collateral to certain derivative counterparties of $701 million and would require us to post cash margin related to our futures contracts of $82 million based on our derivatives portfolio as of December 31, 2016. Of the $689 million estimated decrease in fair value on our derivatives portfolio as of December 31, 2016, $82 million related to non-qualified derivatives used to mitigate interest rate risk associated with our GMWB embedded derivative liabilities as of December 31, 2016. We also performed a similar sensitivity analysis on our embedded derivatives associated with our GMWB liabilities and noted that a 100 basis point increase in interest rates resulted in a decrease of $103 million based on our GMWB embedded derivative liabilities as of December 31, 2016, as compared to an estimated decline of $105 million under this model as of December 31, 2015. As of December 31, 2016, we performed a similar sensitivity analysis and noted that a 100 basis point increase in interest rates resulted in an increase of $10 million on our fixed index annuity embedded derivatives, as compared to an estimated increase of $7 million under this model as of December 31, 2015, and a decrease of $2 million on our indexed universal life embedded derivatives, as compared to an estimated decrease of $1 million under this model as of December 31, 2015.

The impact on our insurance liabilities is not included in the sensitivities above.

The principal amount, weighted-average interest rate and fair value by maturity of our variable rate debt were as follows as of December 31, 2016:

| **(Amounts in millions)** | **Principal amount** | **Weighted-average interest rate** | **Fair value** (2) |
|---|---|---|---|
| Maturity: (1) | | | |
| Non-recourse funding obligations: | | | |
| Rivermont Insurance Company I, 2050 | $ 310 | 2.75% | $ 186 |
| Total non-recourse funding obligations | 310 | 2.75% | 186 |
| Floating rate junior notes, 2025 (3) | 142 | 5.58% | 142 |

| | | |
|---|---|---|
| Total floating rate debt | $ 452 | $ 328 |

(1) There are no maturities over the next five years.
(2) The valuation methodology used is based on the then-current coupon, revalued based on the London Interbank Offered Rate set and current spread assumption based on commercially available data. The model is a floating rate coupon model using the spread assumption to derive the valuation.
(3) Subordinated floating rate notes issued by Genworth Financial Mortgage Insurance Pty Limited, our indirect wholly-owned subsidiary, due in 2025 have an interest rate of three-month Bank Bill Swap reference rate plus a margin of 3.50%.

199

**Table of Contents**

As of December 31, 2015, the weighted-average interest rate on our non-recourse funding obligations was 1.73% based on $1,935 million of principal. During the three months ended March 31, 2016, in connection with a life block transaction, River Lake redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake II redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035. The weighted-average interest rate on subordinated floating rate notes issued by Genworth Financial Mortgage Insurance Pty Limited was 7.17% based on $36 million of principal due in 2021 and 5.66% based on $146 million due in 2025 as of December 31, 2015. In June 2016, Genworth Financial Mortgage Insurance Pty Limited redeemed all of its outstanding AUD$50 million of subordinated floating rate notes due in 2021.

*Equity Market Risk*

One means of assessing exposure to changes in equity market prices is to estimate the potential changes in market values on our equity investments resulting from a hypothetical broad-based decline in equity market prices of 10%. Under this model, with all other factors constant, we estimated that such a decline in equity market prices would cause the fair value of our equity investments to decline by approximately $18 million based on our equity positions as of December 31, 2016, as compared to an estimated decline of $4 million under this model for the year ended December 31, 2015.

We performed a similar sensitivity analysis on our equity market derivatives and noted that a 10% decline in equity market prices would result in an increase in fair value of $64 million based on our equity market derivatives as of December 31, 2016, as compared to an estimated increase of $50 million under this model as of December 31, 2015. The estimated increase in fair value primarily relates to non-qualified derivatives used to mitigate equity market risk associated with our GMWB and fixed index annuity embedded derivative liabilities. We also performed a similar sensitivity analysis on our embedded derivatives associated with our GMWB liabilities and noted that a 10% decline in equity market prices would result in an estimated increase in fair value of $56 million based on our GMWB embedded derivative liabilities as of December 31, 2016, as compared to an estimated increase of $64 million under this model as of December 31, 2015. As of December 31, 2016, we performed a similar sensitivity analysis on our fixed index annuity and indexed universal life embedded derivatives and noted that a 10% decline in equity market prices would result in an estimated decrease in fair value of $31 million and $1 million, respectively, as compared to an estimated decrease in fair value of $28 million and $1 million, respectively, as of December 31, 2015.

*Foreign Currency Risk*

One means of assessing exposure to changes in foreign currency exchange rates is to model effects on reported income using a sensitivity analysis. We analyzed our combined currency exposure for the year ended December 31, 2016, and remeasured our pre-tax earnings assuming a 10% decrease in foreign currency exchange rates compared to the U.S. dollar. Under this model, with all other factors constant, we estimated that such a decrease would reduce our results, before taxes and noncontrolling interests, by approximately $48 million and $54 million under this model for the years ended December 31, 2016 and 2015, respectively.

We also performed a similar sensitivity analysis on our foreign currency derivative portfolio and noted that a 10% decrease in currency exchange rates resulted in a decrease in fair value of $39 million as of December 31, 2016, as compared to an estimated decrease of $5 million under this model for the year ended December 31, 2015. The change in fair value of derivatives may not result in a direct impact to our income as a result of certain derivatives that may be designated as qualifying hedge relationships.

***Derivative Counterparty Credit Risk***

For all derivative instruments except for derivatives associated with our consolidated securitization entities, a counterparty (or its guarantor, as applicable) may not have a long-term unsecured debt rating below A-/A3 as rated by S&P and Moody s, respectively, at the date of execution of the derivative instrument. The same

200

Table of Contents

requirement applies where a Credit Support Annex ( CSA ) to an International Swaps and Derivatives Association, Inc. ( ISDA ) Master Agreement has been obtained such that the counterparty is obligated to provide collateral. In the case of a split or single rating, the lowest or the single rating will apply.

In the case of foreign exchange transactions with a tenor of exposure of less than one year, a counterparty must have short-term credit rating of A-1/P-1 or its equivalent. In the case of a split or single rating, the lowest or the single rating will apply.

All counterparty exposure is measured on a net mark-to-market basis where the valuation of a derivative is adjusted to reflect current market values. This is achieved by estimating the net present value of derivatives positions contracted and outstanding with each counterparty and calculating the gross loss (excluding recoveries) that would be sustained in the event of a counterparty bankruptcy (taking into account netting and pledged collateral under the applicable ISDA Master Agreement and CSA). Investment exposure limits to counterparties take into account all exposures (through derivatives, bond investments, repurchase transactions or otherwise).

We also engage in derivatives transactions traded on regulated exchanges or clearinghouses where the exchanges or clearinghouse ensure the performance of the contracts.

**Item 8. Financial Statements and Supplementary Data**

**Genworth Financial, Inc.**

**Index to Consolidated Financial Statements**

202

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Genworth Financial, Inc.:

We have audited the accompanying consolidated balance sheets of Genworth Financial, Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genworth Financial, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Genworth Financial, Inc. s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2017, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Richmond, Virginia

February 27, 2017

Table of Contents

**GENWORTH FINANCIAL, INC.**

**CONSOLIDATED BALANCE SHEETS**

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

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | $ 60,572 | $ 58,197 |
| Equity securities available-for-sale, at fair value | 632 | 310 |
| Commercial mortgage loans | 6,111 | 6,170 |
| Restricted commercial mortgage loans related to securitization entities | 129 | 161 |
| Policy loans | 1,742 | 1,568 |
| Other invested assets | 2,071 | 2,309 |
| Restricted other invested assets related to securitization entities, at fair value | 312 | 413 |
| Total investments | 71,569 | 69,128 |
| Cash and cash equivalents | 2,784 | 5,965 |
| Accrued investment income | 659 | 653 |
| Deferred acquisition costs | 3,571 | 4,398 |
| Intangible assets and goodwill | 348 | 357 |
| Reinsurance recoverable | 17,755 | 17,245 |
| Other assets | 673 | 520 |
| Deferred tax asset | | 155 |
| Separate account assets | 7,299 | 7,883 |
| Assets held for sale | | 127 |
| Total assets | $ 104,658 | $ 106,431 |
| Liabilities and equity | | |
| Liabilities: | | |
| Future policy benefits | $ 37,063 | $ 36,475 |
| Policyholder account balances | 25,662 | 26,209 |
| Liability for policy and contract claims | 9,256 | 8,095 |
| Unearned premiums | 3,378 | 3,308 |
| Other liabilities ($1 and $46 of other liabilities are related to securitization entities) | 2,916 | 3,004 |
| Borrowings related to securitization entities ($12 and $81 are carried at fair value) | 74 | 179 |
| Non-recourse funding obligations | 310 | 1,920 |
| Long-term borrowings | 4,180 | 4,570 |
| Deferred tax liability | 53 | 24 |
| Separate account liabilities | 7,299 | 7,883 |
| Liabilities held for sale | | 127 |
| Total liabilities | 90,191 | 91,794 |

| | | |
|---|---|---|
| Commitments and contingencies | | |
| Equity: | | |
| Class A common stock, $0.001 par value; 1.5 billion shares authorized; 587 million and 586 million shares issued as of December 31, 2016 and 2015, respectively; 498 million shares outstanding as of December 31, 2016 and 2015 | 1 | 1 |
| Additional paid-in capital | 11,962 | 11,949 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized investment gains (losses): | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,253 | 1,236 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 9 | 18 |
| Net unrealized investment gains (losses) | 1,262 | 1,254 |
| Derivatives qualifying as hedges | 2,085 | 2,045 |
| Foreign currency translation and other adjustments | (253) | (289) |
| Total accumulated other comprehensive income (loss) | 3,094 | 3,010 |
| Retained earnings | 287 | 564 |
| Treasury stock, at cost (88 million shares as of December 31, 2016 and 2015) | (2,700) | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 12,644 | 12,824 |
| Noncontrolling interests | 1,823 | 1,813 |
| Total equity | 14,467 | 14,637 |
| Total liabilities and equity | $ 104,658 | $ 106,431 |

See Notes to Consolidated Financial Statements

204

**Table of Contents**

**GENWORTH FINANCIAL, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

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

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Revenues: | | | |
| Premiums | $ 4,160 | $ 4,579 | $ 4,700 |
| Net investment income | 3,159 | 3,138 | 3,142 |
| Net investment gains (losses) | 72 | (75) | (22) |
| Policy fees and other income | 978 | 906 | 909 |
| Total revenues | 8,369 | 8,548 | 8,729 |
| Benefits and expenses: | | | |
| Benefits and other changes in policy reserves | 5,245 | 5,149 | 6,418 |
| Interest credited | 696 | 720 | 737 |
| Acquisition and operating expenses, net of deferrals | 1,273 | 1,309 | 1,138 |
| Amortization of deferred acquisition costs and intangibles | 498 | 966 | 453 |
| Goodwill impairment | | | 849 |
| Interest expense | 337 | 419 | 433 |
| Total benefits and expenses | 8,049 | 8,563 | 10,028 |
| Income (loss) from continuing operations before income taxes | 320 | (15) | (1,299) |
| Provision (benefit) for income taxes | 358 | (9) | (94) |
| Loss from continuing operations | (38) | (6) | (1,205) |
| Income (loss) from discontinued operations, net of taxes | (29) | (407) | 157 |
| Net loss | (67) | (413) | (1,048) |
| Less: net income attributable to noncontrolling interests | 210 | 202 | 196 |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |
| Loss from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | | |
| Basic | $ (0.50) | $ (0.42) | $ (2.82) |
| Diluted | $ (0.50) | $ (0.42) | $ (2.82) |
| Net loss available to Genworth Financial, Inc. s common stockholders per common share: | | | |
| Basic | $ (0.56) | $ (1.24) | $ (2.51) |

| | | | |
|---|---|---|---|
| Diluted | $ (0.56) | $ (1.24) | $ (2.51) |
| Weighted-average common shares outstanding: | | | |
| Basic | 498.3 | 497.4 | 496.4 |
| Diluted | 498.3 | 497.4 | 496.4 |
| Supplemental disclosures: | | | |
| Total other-than-temporary impairments | $ (40) | $ (28) | $ (9) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | |
| Net other-than-temporary impairments | (40) | (27) | (9) |
| Other investment gains (losses) | 112 | (48) | (13) |
| Total net investment gains (losses) | $ 72 | $ (75) | $ (22) |

See Notes to Consolidated Financial Statements

205

Table of Contents

**GENWORTH FINANCIAL, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Amounts in millions)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Net loss | $ (67) | $ (413) | $ (1,048) |
| Other comprehensive income (loss), net of taxes: | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 6 | (1,209) | 1,573 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (9) | (4) | 10 |
| Derivatives qualifying as hedges | 40 | (25) | 751 |
| Foreign currency translation and other adjustments | 54 | (530) | (537) |
| Total other comprehensive income (loss) | 91 | (1,768) | 1,797 |
| Total comprehensive income (loss) | 24 | (2,181) | 749 |
| Less: comprehensive income (loss) attributable to noncontrolling interests | 217 | (106) | 32 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (193) | $ (2,075) | $ 717 |

See Notes to Consolidated Financial Statements

206

Table of Contents

GENWORTH FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

| | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | Treasury stock, at cost | Total Genworth Financial, Inc. s stockholders equity | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balances as of December 31, 2013 | $ 1 | $ 12,127 | $ 2,542 | $ 2,423 | $ (2,700) | $ 14,393 | $ 1,227 | $ 15,620 |
| Initial sale of subsidiary shares to noncontrolling interests | | (145) | (57) | | | (202) | 713 | 511 |
| Repurchase of subsidiary shares | | | | | | | (28) | (28) |
| Comprehensive income (loss): | | | | | | | | |
| Net income (loss) | | | | (1,244) | | (1,244) | 196 | (1,048) |
| Other comprehensive income (loss), net of taxes | | | 1,961 | | | 1,961 | (164) | 1,797 |
| Total comprehensive income (loss) | | | | | | 717 | 32 | 749 |
| Dividends to noncontrolling interests | | | | | | | (75) | (75) |
| Stock-based compensation expense and exercises and other | | 15 | | | | 15 | 5 | 20 |
| Balances as of December 31, 2014 | 1 | 11,997 | 4,446 | 1,179 | (2,700) | 14,923 | 1,874 | 16,797 |
| Additional sale of subsidiary shares to noncontrolling interests | | (65) | 24 | | | (41) | 267 | 226 |
| | | | | | | | (68) | (68) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Repurchase of subsidiary shares | | | | | | | | |
| Comprehensive income (loss): | | | | | | | | |
| Net income (loss) | | | | (615) | | (615) | 202 | (413) |
| Other comprehensive income (loss), net of taxes | | | (1,460) | | | (1,460) | (308) | (1,768) |
| Total comprehensive income (loss) | | | | | | (2,075) | (106) | (2,181) |
| Dividends to noncontrolling interests | | | | | | | (157) | (157) |
| Stock-based compensation expense and exercises and other | | 17 | | | | 17 | 3 | 20 |
| Balances as of December 31, 2015 | 1 | 11,949 | 3,010 | 564 | (2,700) | 12,824 | 1,813 | 14,637 |
| Return of capital to noncontrolling interests | | | | | | | (70) | (70) |
| Comprehensive income (loss): | | | | | | | | |
| Net income (loss) | | | | (277) | | (277) | 210 | (67) |
| Other comprehensive income (loss), net of taxes | | | 84 | | | 84 | 7 | 91 |
| Total comprehensive income (loss) | | | | | | (193) | 217 | 24 |
| Dividends to noncontrolling interests | | | | | | | (138) | (138) |
| Stock-based compensation expense and exercises and other | | 13 | | | | 13 | 1 | 14 |
| Balances as of December 31, 2016 | $ 1 | $ 11,962 | $ 3,094 | $ 287 | $ (2,700) | $ 12,644 | $ 1,823 | $ 14,467 |

See Notes to Consolidated Financial Statements

Table of Contents

**GENWORTH FINANCIAL, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Amounts in millions)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Cash flows from operating activities: | | | |
| Net loss | $ (67) | $ (413) | $ (1,048) |
| Less (income) loss from discontinued operations, net of taxes | 29 | 407 | (157) |
| Adjustments to reconcile net loss to net cash from operating activities: | | | |
| (Gain) loss on sale of businesses | (26) | 141 | |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | (138) | (106) | (111) |
| Net investment (gains) losses | (72) | 75 | 22 |
| Charges assessed to policyholders | (782) | (788) | (777) |
| Acquisition costs deferred | (150) | (293) | (383) |
| Amortization of deferred acquisition costs and intangibles | 498 | 966 | 453 |
| Goodwill impairment | | | 849 |
| Deferred income taxes | 145 | (196) | (341) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | 709 | (239) | 206 |
| Stock-based compensation expense | 32 | 16 | 28 |
| Change in certain assets and liabilities: | | | |
| Accrued investment income and other assets | (358) | (106) | (163) |
| Insurance reserves | 1,315 | 1,847 | 2,497 |
| Current tax liabilities | 32 | (15) | (196) |
| Other liabilities, policy and contract claims and other policy-related balances | 685 | 293 | 1,517 |
| Cash from operating activities held for sale | | 2 | 42 |
| Net cash from operating activities | 1,852 | 1,591 | 2,438 |
| Cash flows from investing activities: | | | |
| Proceeds from maturities and repayments of investments: | | | |
| Fixed maturity securities | 3,889 | 4,541 | 5,198 |
| Commercial mortgage loans | 700 | 882 | 765 |
| Restricted commercial mortgage loans related to securitization entities | 32 | 41 | 32 |
| Proceeds from sales of investments: | | | |
| Fixed maturity and equity securities | 5,629 | 4,391 | 2,386 |
| Purchases and originations of investments: | | | |
| Fixed maturity and equity securities | (11,529) | (9,750) | (9,188) |
| Commercial mortgage loans | (649) | (956) | (967) |
| Other invested assets, net | (154) | 175 | (35) |
| Policy loans, net | (77) | 25 | 12 |
| Proceeds from sale of businesses, net of cash transferred | 39 | 273 | |

| | | | |
|---|---|---|---|
| Cash from investing activities held for sale | | (26) | (39) |
| Net cash from investing activities | (2,120) | (404) | (1,836) |
| Cash flows from financing activities: | | | |
| Deposits to universal life and investment contracts | 1,349 | 2,257 | 2,993 |
| Withdrawals from universal life and investment contracts | (2,004) | (2,144) | (2,588) |
| Redemption and repurchase of non-recourse funding obligations | (1,620) | (61) | (42) |
| Proceeds from issuance of long-term debt | | 150 | 144 |
| Repayment and repurchase of long-term debt | (362) | (120) | (621) |
| Repayment of borrowings related to securitization entities | (42) | (36) | (32) |
| Repurchase of subsidiary shares | | (68) | (28) |
| Return of capital to noncontrolling interests | (70) | | |
| Dividends paid to noncontrolling interests | (138) | (157) | (75) |
| Proceeds from sale of subsidiary shares to noncontrolling interests | | 226 | 517 |
| Other, net | (44) | (98) | (30) |
| Cash from financing activities held for sale | | 9 | (33) |
| Net cash from financing activities | (2,931) | (42) | 205 |
| Effect of exchange rate changes on cash and cash equivalents (includes $ , $(35) and $(39) related to businesses held for sale | (10) | (70) | (103) |
| Net change in cash and cash equivalents | (3,209) | 1,075 | 704 |
| Cash and cash equivalents at beginning of period | 5,993 | 4,918 | 4,214 |
| Cash and cash equivalents at end of period | 2,784 | 5,993 | 4,918 |
| Less cash and cash equivalents held for sale at end of period | | 28 | 273 |
| Cash and cash equivalents of continuing operations at end of period | $ 2,784 | $ 5,965 | $ 4,645 |

See Notes to Consolidated Financial Statements

208

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

**(1) Nature of Business and Formation of Genworth**

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

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement ) with Asia Pacific Global Capital Co., Ltd. ( the Parent ), a limited liability company incorporated in the People s Republic of China, and Asia Pacific Global Capital USA Corporation ( Merger Sub ), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide ). China Oceanwide has agreed to acquire all of our outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. The transaction is subject to approval by our stockholders as well as other closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international markets. Both parties are engaging with regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to expect the transaction to close by mid-2017.

The accompanying financial statements include on a consolidated basis the accounts of Genworth and our affiliate companies in which we hold a majority voting interest or power to direct activities of certain variable interest entities ( VIEs ), which we refer to as Genworth, the Company, we, us or our unless the context otherwise requires. Al intercompany accounts and transactions have been eliminated in consolidation.

We operate our business through the following five operating segments:

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

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

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

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

***Runoff.*** The Runoff segment includes the results of non-strategic products which have not been actively sold but we continue to service our existing blocks of business. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life

209

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 addition to our five operating business segments, we also have Corporate and Other activities which include debt financing expenses that are incurred at the Genworth Holdings level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations. See note 24 for additional information related to discontinued operations.

**(2) Summary of Significant Accounting Policies**

Our consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles ( U.S. GAAP ). 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

*a) Premiums*

For traditional long-duration insurance contracts, we report premiums as earned when due. For short-duration insurance contracts, we report premiums as revenue over the terms of the related insurance policies on a pro-rata basis or in proportion to expected claims.

For single premium mortgage insurance contracts, we report premiums over the estimated policy life in accordance with the expected pattern of risk emergence as further described in our accounting policy for unearned premiums. In addition, we have a practice of refunding the post-delinquent premiums in our U.S. mortgage insurance business to the insured party if the delinquent loan goes to claim. We record a liability for premiums received on the delinquent loans where our practice is to refund post-delinquent premiums.

Premiums received under annuity contracts without significant mortality risk and premiums received on investment and universal life insurance products are not reported as revenues but rather as deposits and are included in liabilities for policyholder account balances.

*b) Net Investment Income and Net Investment Gains and Losses*

Investment income is recognized when earned. Income or losses upon call or prepayment of available-for-sale fixed maturity securities is recognized in net investment income, except for hybrid securities where the income or loss upon call is recognized in net investment gains and losses. Investment gains and losses are calculated on the basis of specific identification on the trade date.

Investment income on mortgage-backed and asset-backed securities is initially based upon yield, cash flow and prepayment assumptions at the date of purchase. Subsequent revisions in those assumptions are recorded using the retrospective or prospective method. Under the retrospective method used for mortgage-backed and asset-backed securities of high credit quality (ratings equal to or greater than AA or that are backed by a U.S. agency) which cannot be contractually prepaid in such a manner that we would not recover a substantial portion of the initial investment, amortized cost of the security is adjusted to the amount that would have existed had the

210

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

revised assumptions been in place at the date of purchase. The adjustments to amortized cost are recorded as a charge or credit to net investment income. Under the prospective method, which is used for all other mortgage-backed and asset-backed securities, future cash flows are estimated and interest income is recognized going forward using the new internal rate of return.

*c) Policy Fees and Other Income*

Policy fees and other income consists primarily of insurance charges assessed on universal and term universal life insurance contracts and fees assessed against customer account values. For universal and term universal life insurance contracts, charges to policyholder accounts for cost of insurance are recognized as revenue when due. Variable product fees are charged to variable annuity contractholders and variable life insurance policyholders based upon the daily net assets of the contractholder s and policyholder s account values and are recognized as revenue when charged. Policy surrender fees are recognized as income when the policy is surrendered.

*d) Investment Securities*

At the time of purchase, we designate our investment securities as either available-for-sale or trading and report them in our consolidated balance sheets at fair value. Our portfolio of fixed maturity securities comprises primarily investment grade securities. Changes in the fair value of available-for-sale investments, net of the effect on deferred acquisition costs ( DAC ), present value of future profits ( PVFP ), benefit reserves and deferred income taxes, are reflected as unrealized investment gains or losses in a separate component of accumulated other comprehensive income (loss). Realized and unrealized gains and losses related to trading securities are reflected in net investment gains (losses). Trading securities are included in other invested assets in our consolidated balance sheets and primarily represent fixed maturity securities where we utilized the fair value option.

*Other-Than-Temporary Impairments On Available-For-Sale Securities*

As of each balance sheet date, we evaluate securities in an unrealized loss position for other-than-temporary impairments. For debt securities, we consider all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. More specifically for mortgage-backed and asset-backed securities, we also utilize performance indicators of the underlying assets including default or delinquency rates, loan to collateral value ratios, third-party credit enhancements, current levels of subordination, vintage and other relevant characteristics of the security or underlying assets to develop our estimate of cash flows. Estimating the cash flows expected to be collected is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third-party sources.

We recognize other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

we do not expect full recovery of our amortized cost basis when due,

the present value of cash flows expected to be collected is less than our amortized cost basis,

we intend to sell a security or

it is more likely than not that we will be required to sell a security prior to recovery.

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

For other-than-temporary impairments recognized during the period, we present the total other-than-temporary impairments, the portion of other-than-temporary impairments included in other comprehensive income (loss) ( OCI ) and the net other-than-temporary impairments as supplemental disclosure presented on the face of our consolidated statements of income.

Total other-than-temporary impairments that emerged in the current period are calculated as the difference between the amortized cost and fair value. For other-than-temporarily impaired securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, total other-than-temporary impairments are adjusted by the portion of other-than-temporary impairments recognized in OCI ( non-credit ). Net other-than-temporary impairments recorded in net income (loss) represent the credit loss on the other-than-temporarily impaired securities with the offset recognized as an adjustment to the amortized cost to determine the new amortized cost basis of the securities.

For securities that were deemed to be other-than-temporarily impaired and a non-credit loss was recorded in OCI, the amount recorded as an unrealized gain (loss) represents the difference between the current fair value and the new amortized cost for each period presented. The unrealized gain (loss) on an other-than-temporarily impaired security is recorded as a separate component in OCI until the security is sold or until we record an other-than-temporary impairment where we intend to sell the security or will be required to sell the security prior to recovery.

To estimate the amount of other-than-temporary impairment attributed to credit losses on debt securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, we determine our best estimate of the present value of the cash flows expected to be collected from a security using the effective yield on the security prior to recording any other-than-temporary impairment. If the present value of the discounted cash flows is lower than the amortized cost of the security, the difference between the present value and amortized cost represents the credit loss associated with the security with the remaining difference between fair value and amortized cost recorded as a non-credit other-than-temporary impairment in OCI.

The evaluation of other-than-temporary impairments is subject to risks and uncertainties and is intended to determine the appropriate amount and timing for recognizing an impairment charge. The assessment of whether such impairment has occurred is based on management s best estimate of the cash flows expected to be collected at the individual security level. We regularly monitor our investment portfolio to ensure that securities that may be other-than-temporarily impaired are identified in a timely manner and that any impairment charge is recognized in the proper period.

While the other-than-temporary impairment model for debt securities generally includes fixed maturity securities, there are certain hybrid securities that are classified as fixed maturity securities where the application of a debt impairment model depends on whether there has been any evidence of deterioration in credit of the issuer, such as a downgrade to below investment grade. Under certain circumstances, evidence of deterioration in credit of the issuer may result in the application of the equity securities impairment model.

For equity securities, we recognize an impairment charge in the period in which we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months for common equity securities. We measure other-than-temporary impairments based upon the difference between the amortized cost of a security and its fair value.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*e) Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Instruments whose significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as equity securities and actively traded mutual fund investments.

Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. These models are primarily industry-standard models that consider various inputs, such as interest rate, credit spread and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable, information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed maturity and equity securities; government or agency securities; certain mortgage-backed and asset-backed securities; securities held as collateral; and certain non-exchange-traded derivatives such as interest rate or cross currency swaps.

Level 3 comprises financial instruments whose fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on, nor corroborated by, readily available market information. In certain instances, this category may also utilize non-binding broker quotes. This category primarily consists of certain less liquid fixed maturity, equity and trading securities and certain derivative instruments or embedded derivatives where we cannot corroborate the significant valuation inputs with market observable data.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability, such as the relative impact on the fair value as a result of including a particular input. We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. See note 16 for additional information related to fair value measurements.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*f) Commercial Mortgage Loans*

The carrying value of commercial mortgage loans is stated at original cost, net of principal payments, amortization and allowance for loan losses. Interest on loans is recognized on an accrual basis at the applicable interest rate on the principal amount outstanding. Loan origination fees and direct costs, as well as premiums and discounts, are amortized as level yield adjustments over the respective loan terms. Unamortized net fees or costs are recognized upon early repayment of the loans. Loan commitment fees are deferred and amortized on an effective yield basis over the term of the loan. Commercial mortgage loans are considered past due when contractual payments have not been received from the borrower by the required payment date.

Impaired loans are defined by U.S. GAAP as loans for which it is probable that the lender will be unable to collect all amounts due according to original contractual terms of the loan agreement. In determining whether it is probable that we will be unable to collect all amounts due, we consider current payment status, debt service coverage ratios, occupancy levels and current loan-to-value. Impaired loans are carried on a non-accrual status. Loans are placed on non-accrual status when, in management s opinion, the collection of principal or interest is unlikely, or when the collection of principal or interest is 90 days or more past due. Income on impaired loans is not recognized until the loan is sold or the cash received exceeds the carrying amount recorded.

We evaluate the impairment of commercial mortgage loans first on an individual loan basis. If an individual loan is not deemed impaired, then we evaluate the remaining loans collectively to determine whether an impairment should be recorded.

For individually impaired loans, we record an impairment charge when it is probable that a loss has been incurred. The impairment is recorded as an increase in the allowance for loan losses. All losses of principal are charged to the allowance for loan losses in the period in which the loan is deemed to be uncollectible.

For loans that are not individually impaired where we evaluate the loans collectively, the allowance for loan losses is maintained at a level that we determine is adequate to absorb estimated probable incurred losses in the loan portfolio. Our process to determine the adequacy of the allowance utilizes an analytical model based on historical loss experience adjusted for current events, trends and economic conditions that would result in a loss in the loan portfolio over the next 12 months. Key inputs into our evaluation include debt service coverage ratios, loan-to-value, property-type, occupancy levels, geographic region, and probability weighting of the scenarios generated by the model. The actual amounts realized could differ in the near term from the amounts assumed in arriving at the allowance for loan losses reported in the consolidated financial statements. Additions and reductions to the allowance through periodic provisions or benefits are recorded in net investment gains (losses).

For commercial mortgage loans classified as held-for-sale, each loan is carried at the lower of cost or market and is included in commercial mortgage loans in our consolidated balance sheets. See note 4 for additional disclosures related to commercial mortgage loans.

*g) Repurchase Agreements*

We have a repurchase program in which we sell an investment security at a specified price and agree to repurchase that security at another specified price at a later date. Repurchase agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities are subsequently reacquired, including accrued interest, as specified in the respective agreement. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the parties against credit exposure. Cash received is invested in fixed maturity securities. See note 12 for additional information related to our repurchase agreements.

214

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*h) Securities Lending Activity*

In the United States and Canada, we engage in certain securities lending transactions for the purpose of enhancing the yield on our investment securities portfolio. We maintain effective control over all loaned securities and, therefore, continue to report such securities as fixed maturity securities on the consolidated balance sheets. We are currently indemnified against counterparty credit risk by the intermediary. See note 12 for additional information related to our securities lending activity.

*i) Cash and Cash Equivalents*

Certificates of deposit, money market funds and other time deposits with original maturities of 90 days or less are considered cash equivalents in the consolidated balance sheets and consolidated statements of cash flows. Items with maturities greater than 90 days but less than one year at the time of acquisition are considered short-term investments.

*j) Deferred Acquisition Costs*

Acquisition costs include costs that are directly related to the successful acquisition of new or renewal insurance contracts. Acquisition costs are deferred and amortized to the extent they are recoverable from future profits.

*Long-Duration Contracts*. Acquisition costs include commissions in excess of ultimate renewal commissions and for contracts issued, certain other costs such as underwriting, medical inspection and issuance expenses. DAC for traditional long-duration insurance contracts, including term life and long-term care insurance, is amortized as a level percentage of premiums based on assumptions, including, investment returns, health care experience (including type of care and cost of care), policyholder persistency or lapses (i.e., the probability that a policy or contract will remain in-force from one period to the next), insured life expectancy or longevity, insured morbidity (i.e., frequency and severity of claim, including claim termination rates and benefit utilization rates) and expenses, established when the contract is issued. Amortization is adjusted each period to reflect actual lapse or termination rates.

Amortization for deferred annuity and universal life insurance contracts is based on expected gross profits. Expected gross profits are adjusted quarterly to reflect actual experience to date or for changes in underlying assumptions relating to future gross profits. Estimates of gross profits for DAC amortization are based on assumptions including interest rates, policyholder persistency or lapses, insured life expectancy or longevity and expenses.

*Short-Duration Contracts.* Acquisition costs primarily consist of commissions and premium taxes and are amortized ratably over the terms of the underlying policies.

We regularly review our assumptions and test DAC for recoverability at least annually. For deferred annuity and universal life insurance contracts, if the present value of expected future gross profits is less than the unamortized DAC for a line of business, a charge to income is recorded for additional DAC amortization. For traditional long-duration and short-duration contracts, if the benefit reserve plus anticipated future premiums and interest income for a line of business are less than the current estimate of future benefits and expenses (including any unamortized DAC), a charge to income is recorded for additional DAC amortization or for increased benefit reserves. See note 6 for additional information related to DAC including loss recognition and recoverability.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*k) Intangible Assets*

*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 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 PVFP assumptions and periodically test PVFP for recoverability similar to our treatment of DAC. See note 7 for additional information related to PVFP including loss recognition and recoverability.

*Deferred Sales Inducements to Contractholders.* We defer sales inducements to contractholders for features on variable annuities that entitle the contractholder to an incremental amount to be credited to the account value upon making a deposit, and for fixed annuities with crediting rates higher than the contract s expected ongoing crediting rates for periods after the inducement. Deferred sales inducements to contractholders are reported as a separate intangible asset and amortized in benefits and other changes in policy reserves using the same methodology and assumptions used to amortize DAC.

*Other Intangible Assets.* We amortize the costs of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, which requires the use of estimates and judgment, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested at least annually for impairment using a qualitative or quantitative assessment and are written down to fair value as required.

*l) Goodwill*

Goodwill is not amortized but is tested for impairment annually or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. The determination of fair value requires the use of estimates and judgment, at the reporting unit level. A reporting unit is the operating segment, or a business, one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by management at the component level. If the reporting unit s fair value is below its carrying value, we must determine the amount of implied goodwill that would be established if the reporting unit was hypothetically purchased on the impairment assessment date. We recognize an impairment charge for any amount by which the carrying amount of a reporting unit s goodwill exceeds the amount of implied goodwill.

See note 7 for additional information related to goodwill and impairments recorded.

*m) Reinsurance*

Premium revenue, benefits and acquisition and operating expenses, net of deferrals, are reported net of the amounts relating to reinsurance ceded to and assumed from other companies. Amounts due from reinsurers for incurred and estimated future claims are reflected in the reinsurance recoverable asset. Amounts received from reinsurers that represent recovery of acquisition costs are netted against DAC so that the net amount is capitalized. The cost of reinsurance is accounted for over the terms of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies. Premium revenue, benefits and acquisition and operating expenses, net of deferrals, for reinsurance contracts that do not qualify for reinsurance accounting are accounted for under the deposit method of accounting.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*n) Derivatives*

Derivative instruments are used to manage risk through one of four principal risk management strategies including: (i) liabilities; (ii) invested assets; (iii) portfolios of assets or liabilities; and (iv) forecasted transactions.

On the date we enter into a derivative contract, management designates the derivative as a hedge of the identified exposure (fair value, cash flow or foreign currency). If a derivative does not qualify for hedge accounting, the changes in its fair value and all scheduled periodic settlement receipts and payments are reported in income.

We formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. In this documentation, we specifically identify the asset, liability or forecasted transaction that has been designated as a hedged item, state how the hedging instrument is expected to hedge the risks related to the hedged item, and set forth the method that will be used to retrospectively and prospectively assess the hedging instrument s effectiveness and the method that will be used to measure hedge ineffectiveness. We generally determine hedge effectiveness based on total changes in fair value of the hedged item attributable to the hedged risk and the total changes in fair value of the derivative instrument.

We discontinue hedge accounting prospectively when: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; (iii) the derivative is de-designated as a hedge instrument; or (iv) it is no longer probable that the forecasted transaction will occur.

For all qualifying and highly effective cash flow hedges, the effective portion of changes in fair value of the derivative instrument is reported as a component of OCI. The ineffective portion of changes in fair value of the derivative instrument is reported as a component of income. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative continues to be carried in the consolidated balance sheets at its fair value, and gains and losses that were accumulated in OCI are recognized immediately in income. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in OCI and is recognized when the transaction affects income; however, prospective hedge accounting for the transaction is terminated. In all other situations in which hedge accounting is discontinued on a cash flow hedge, amounts previously deferred in OCI are reclassified into income when income is impacted by the variability of the cash flow of the hedged item.

For all qualifying and highly effective fair value hedges, the changes in fair value of the derivative instrument are reported in income. In addition, changes in fair value attributable to the hedged portion of the underlying instrument are reported in income. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative continues to be carried in the consolidated balance sheets at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value. In all other situations in which hedge accounting is discontinued, the derivative is carried at its fair value in the consolidated balance sheets, with changes in its fair value recognized in current period income.

We may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, we assess whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determine whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded in the consolidated balance sheets at fair value and are classified consistent with their host contract. Changes in their fair value are recognized in current period income. If we are unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried in the consolidated balance sheets at fair value, with changes in fair value recognized in current period income.

Changes in the fair value of non-qualifying derivatives, including embedded derivatives, changes in fair value of certain derivatives and related hedged items in fair value hedge relationships and hedge ineffectiveness on cash flow hedges are reported in net investment gains (losses).

The majority of our derivative arrangements require the posting of collateral upon meeting certain net exposure thresholds. The amounts recognized for derivative counterparty collateral received by us was recorded in cash and cash equivalents with a corresponding amount recorded in other liabilities to represent our obligation to return the collateral retained by us. We also receive non-cash collateral that is not recognized in our balance sheet unless we exercise our right to sell or re-pledge the underlying asset. As of December 31, 2016 and 2015, the fair value of non-cash collateral received was $24 million and $86 million, respectively, and the underlying assets were not sold or re-pledged. We have pledged $384 million and $263 million of fixed maturity securities as of December 31, 2016 and 2015, respectively. Additionally, as of December 31, 2016 we pledged $173 million of cash as collateral to derivative counterparties. As of December 31, 2015, we have not pledged any cash as collateral to derivative counterparties. Fixed maturity securities that we pledge as collateral remain on our balance sheet within fixed maturity securities available-for-sale. Any cash collateral pledged to a derivative counterparty is derecognized with a receivable recorded in other assets for the right to receive our cash collateral back from the counterparty.

*o) Separate Accounts and Related Insurance Obligations*

Separate account assets represent funds for which the investment income and investment gains and losses accrue directly to the contractholders and are reflected in our consolidated balance sheets at fair value, reported as summary total separate account assets with an equivalent summary total reported for liabilities. Amounts assessed against the contractholders for mortality, administrative and other services are included in revenues. Changes in liabilities for minimum guarantees are included in benefits and other changes in policy reserves. Net investment income, net investment gains (losses) and the related liability changes associated with the separate account are offset within the same line item in the consolidated statements of income. There were no gains or losses on transfers of assets from the general account to the separate account.

We offer certain minimum guarantees associated with our variable annuity contracts. Our variable annuity contracts usually contain a basic guaranteed minimum death benefit ( GMDB ) which provides a minimum benefit to be paid upon the annuitant s death equal to the larger of account value and the return of net deposits. Some variable annuity contracts permit contractholders to purchase through riders, at an additional charge, enhanced death benefits such as the highest contract anniversary value ( ratchets ), accumulated net deposits at a stated rate ( rollups ), or combinations thereof.

Additionally, some of our variable annuity contracts provide the contractholder with living benefits such as a guaranteed minimum withdrawal benefit ( GMWB ) or certain types of guaranteed annuitization benefits. The GMWB allows contractholders to withdraw a pre-defined percentage of account value or benefit base each year,

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

either for a specified period of time or for life. The guaranteed annuitization benefit generally provides for a guaranteed minimum level of income upon annuitization accompanied by the potential for upside market participation.

Most of our reserves for additional insurance and annuitization benefits are calculated by applying a benefit ratio to accumulated contractholder assessments, and then deducting accumulated paid claims. The benefit ratio is equal to the ratio of benefits to assessments, accumulated with interest and considering both past and anticipated future experience. The projections utilize stochastic scenarios of separate account returns incorporating reversion to the mean, as well as assumptions for mortality and lapses. Some of our minimum guarantees, mainly GMWBs, are accounted for as embedded derivatives; see notes 5 and 16 for additional information on these embedded derivatives and related fair value measurement disclosures.

*p) Insurance Reserves*

*Future Policy Benefits*

The liability for future policy benefits is equal to the present value of expected benefits and expenses less the present value of expected future net premiums based on assumptions, including, investment returns, health care experience (including type of care and cost of care), policyholder persistency or lapses (i.e., the probability that a policy or contract will remain in-force from one period to the next), insured life expectancy or longevity, insured morbidity (i.e., frequency and severity of claim, including claim termination rates and benefit utilization rates) and expenses, all of which are locked-in at the time the policies are issued or acquired. Claim termination rates refer to the expected rates at which claims end. Benefit utilization rates estimate how much of the available policy benefits are expected to be used.

The liability for future policy benefits is evaluated at least annually to determine if a premium deficiency exists. Loss recognition testing is generally performed at the line of business level, with acquired blocks and certain reinsured blocks tested separately. If the liability for future policy benefits plus the current present value of expected future premiums are less than the current present value of expected future benefits and expenses (including any unamortized DAC), a charge to income is recorded for accelerated DAC amortization and, if necessary, a premium deficiency reserve is established. If a charge is recorded, DAC amortization and the liability for future policy benefits are measured using updated assumptions, which become the new locked-in assumptions utilized going forward unless another premium deficiency charge is recorded. Our estimates of future premiums used in loss recognition testing for our long-term care insurance business include assumptions for significant premium rate increases that have been filed and approved or are anticipated to be approved. Beginning in the fourth quarter of 2014, estimates of future premiums also include significant anticipated (but not yet filed) future rate increases or benefit reductions. These anticipated future increases are based on our best estimate of the rate increases we expect to obtain, considering, among other factors, our historical experience from prior rate increase approvals and based on our best estimate of expected claim costs.

We are also required to accrue additional future policy benefit reserves when the overall reserve is adequate, but profits are projected in early periods followed by losses projected in later periods. When this pattern of profits followed by losses exists, we ratably accrue this additional profits followed by losses liability over time, increasing reserves in the profitable periods to offset estimated losses expected during the periods that follow. We calculate and adjust the additional reserves using our current best estimate of the amount necessary to offset the losses in future periods, based on the pattern of expected income and current best estimate assumptions consistent with our loss recognition testing. We adjust the accrual rate prospectively, going forward over the remaining profit periods, without any catch-up adjustment.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

For long-term care insurance products, benefit reductions are treated as partial lapse of coverage with the balance of our future policy benefits and DAC both reduced in proportion to the reduced coverage. For level premium term life insurance products, we floor the liability for future policy benefits on each policy at zero.

Estimates and actuarial assumptions used for establishing the liability for future policy benefits and in loss recognition testing involve the exercise of significant judgment, and changes in assumptions or deviations of actual experience from assumptions can have material impacts on our liability for future policy benefits and net income (loss). Because these assumptions relate to factors that are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our reserves, results of operations and financial condition. The risk that our claims experience may differ significantly from our pricing and valuation assumptions is particularly significant for our long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, our actual claims experience will emerge over many years after pricing and locked-in valuation assumptions have been established.

*Policyholder Account Balances*

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

Investment-type contracts are broadly defined to include contracts without significant mortality or morbidity risk. Payments received from sales of investment contracts are recognized by providing a liability equal to the current account value of the policyholders contracts. Interest rates credited to investment contracts are guaranteed for the initial policy term with renewal rates determined as necessary by management.

*q) Liability for Policy and Contract Claims*

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

Our liability for policy and contract claims is reviewed regularly, with changes in our estimates of future claims recorded through net income (loss). Estimates and actuarial assumptions used for establishing the liability for policy and contract claims involve the exercise of significant judgment, and changes in assumptions or deviations of actual experience from assumptions can have material impacts on our liability for policy and contract claims and net income (loss). Because these assumptions relate to factors that are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with

220

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

precision the ultimate amounts we will pay for actual claims or the timing of those payments. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our reserves, results of operations and financial condition.

The liability for policy and contract claims for our long-term care insurance products represents the present value of the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. Key assumptions include investment returns, health care experience (including type of care and cost of care), policyholder persistency or lapses (i.e., the probability that a policy or contract will remain in-force from one period to the next), insured mortality (i.e., life expectancy or longevity), insured morbidity (i.e., frequency and severity of claim, including claim termination rates and benefit utilization rates) and expenses. Claim termination rates refer to the expected rates at which claims end. Benefit utilization rates estimate how much of the available policy benefits are expected to be used. Both claim termination rates and benefit utilization rates are influenced by, among other things, gender, age at claim, diagnosis, type of care needed, benefit period, and daily benefit amount. Because these assumptions relate to factors that are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our reserves, results of operations and financial condition.

The liabilities for our mortgage insurance policies represent our best estimates of the liabilities at the time based on known facts, trends and other external factors, including economic conditions, housing prices and employment rates. For our mortgage insurance policies, reserves for losses and loss adjustment expenses are based on notices of mortgage loan defaults and estimates of defaults that have been incurred but have not been reported by loan servicers, using assumptions of claim rates for loans in default and the average amount paid for loans that result in a claim. As is common accounting practice in the mortgage insurance industry and in accordance with U.S. GAAP, we begin to provide for the ultimate claim payment relating to a potential claim on a defaulted loan when the status of that loan first goes delinquent. Over time, as the status of the underlying delinquent loans move toward foreclosure and the likelihood of the associated claim loss increases, the amount of the loss reserves associated with the potential claims may also increase.

Management considers the liability for policy and contract claims provided to be its best estimate to cover the losses that have occurred. Management monitors actual experience, and where circumstances warrant, will revise its assumptions. The methods of determining such estimates and establishing the reserves are reviewed periodically and any adjustments are reflected in operations in the period in which they become known. Future developments may result in losses and loss expenses greater or less than the liability for policy and contract claims provided.

*r) Unearned Premiums*

For single premium insurance contracts, we recognize premiums over the policy life in accordance with the expected pattern of risk emergence. We recognize a portion of the revenue in premiums earned in the current period, while the remaining portion is deferred as unearned premiums and earned over time in accordance with the expected pattern of risk emergence. If single premium policies are cancelled and the premium is non-refundable, then the remaining unearned premium related to each cancelled policy is recognized to earned premiums upon notification of the cancellation. Expected pattern of risk emergence on which we base premium recognition is inherently judgmental and is based on actuarial analysis of historical experience. We periodically

221

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

review our premium earnings recognition models with any adjustments to the estimates reflected in current period income. For the years ended December 31, 2016, 2015 and 2014, we reviewed our premium recognition factors for our mortgage insurance businesses. These reviews included the consideration of recent and projected loss experience, policy cancellation experience and refinement of actuarial methods. In 2016, we did not have any adjustments associated with this review. In 2015 and 2014, adjustments associated with this review resulted in an increase in earned premiums of $8 million and $6 million, respectively.

*s) Stock-Based Compensation*

We determine a grant date fair value and recognize the related compensation expense, adjusted for expected forfeitures, through the income statement over the respective vesting period of the awards.

*t) Employee Benefit Plans*

We provide employees with a defined contribution pension plan and recognize expense throughout the year based on the employee s age, service and eligible pay. We make an annual contribution to the plan. We also provide employees with defined contribution savings plans. We recognize expense for our contributions to the savings plans at the time employees make contributions to the plans.

Some employees participate in defined benefit pension and postretirement benefit plans. We recognize expense for these plans based upon actuarial valuations performed by external experts. We estimate aggregate benefits by using assumptions for employee turnover, future compensation increases, rates of return on pension plan assets and future health care costs. We recognize an expense for differences between actual experience and estimates over the average future service period of participants. We recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in our consolidated balance sheets and recognize changes in that funded status in the year in which the changes occur through OCI.

*u) Income Taxes*

We determine deferred tax assets and/or liabilities by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled if there is no change in law. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

We do not record U.S. deferred taxes on foreign income that we do not expect to remit or repatriate to U.S. corporations within our consolidated group. Under U.S. GAAP, we are generally required to record U.S. deferred taxes on the anticipated repatriation of foreign income as the income is recognized for financial reporting purposes. An exception under certain accounting guidance permits us not to record a U.S. deferred tax liability for foreign income that we expect to reinvest in our foreign operations and for which remittance will be postponed indefinitely. If it becomes apparent that we cannot positively assert that some or all undistributed income will be reinvested indefinitely, the related deferred taxes are recorded in that period. In determining indefinite reinvestment, we regularly evaluate the capital needs of our domestic and foreign operations considering all available information, including operating and capital plans, regulatory capital requirements, parent company financing and cash flow needs, as well as the applicable tax laws to which our domestic and foreign subsidiaries are subject. Our estimates are based on our historical experience and our expectation of future performance. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future capital needs, which are impacted by such things as regulatory requirements, policyholder behavior, competitor pricing, new product introductions, and specific industry and market conditions.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Similarly, under another exception to the recognition of deferred taxes under U.S. GAAP, we do not record deferred taxes on U.S. domestic subsidiary entities for the excess of the financial statement carrying amount over the tax basis in the stock of the subsidiary (commonly referred to as outside basis difference ) if we have the ability under the tax law and intent to recover the basis difference in a tax free manner. Deferred taxes would be recognized in the period of a change to our ability or intent.

Our companies have elected to file a single U.S. consolidated income tax return (the life/non-life consolidated return ). All companies domesticated in the United States and our former Bermuda and Guernsey subsidiaries, which have elected to be taxed as U.S. domestic companies, are included in the life/non-life consolidated return as allowed by the tax law and regulations. We have a tax sharing agreement (the life/non-life tax sharing agreement ) in place and all intercompany balances related to this agreement are settled at least annually.

Our former subsidiaries based in Bermuda and Guernsey were treated as U.S. insurance companies under provisions of the U.S. Internal Revenue Code, and were included in the life/non-life consolidated return, and have adopted the life-non/life tax sharing agreement. Jurisdictions outside the United States in which our various subsidiaries incur significant taxes include Australia and Canada.

*v) Foreign Currency Translation*

The determination of the functional currency is made based on the appropriate economic and management indicators. The assets and liabilities of foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Translation adjustments are included as a separate component of accumulated other comprehensive income (loss). Revenues and expenses of the foreign operations are translated into U.S. dollars at the average rates of exchange during the period of the transaction. Gains and losses from foreign currency transactions are reported in income and have not been material in any years presented in our consolidated statements of income.

*w) Variable Interest Entities*

We are involved in certain entities that are considered VIEs as defined under U.S. GAAP, and, accordingly, we evaluate the VIE to determine whether we are the primary beneficiary and are required to consolidate the assets and liabilities of the entity. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of a VIE that most significantly impacts the VIE s economic performance and has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The determination of the primary beneficiary for a VIE can be complex and requires management judgment regarding the expected results of the entity and how those results are absorbed by beneficial interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIEs.

Our primary involvement related to VIEs includes securitization transactions, certain investments and certain mortgage insurance policies.

We have retained interests in VIEs where we are the servicer and transferor of certain assets that were sold to a newly created VIE. Additionally, for certain securitization transactions, we were the transferor of certain assets that were sold to a newly created VIE but did not retain any beneficial interest in the VIE other than acting as the servicer of the underlying assets.

We hold investments in certain structures that are considered VIEs. Our investments represent beneficial interests that are primarily in the form of structured securities or alternative investments. Our involvement in these structures typically represent a passive investment in the returns generated by the VIE and typically do not result in having significant influence over the economic performance of the VIE.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

We also provide mortgage insurance on certain residential mortgage loans originated and securitized by third parties using VIEs to issue mortgage-backed securities. While we provide mortgage insurance on the underlying loans, we do not typically have any ongoing involvement with the VIE other than our mortgage insurance coverage and do not act in a servicing capacity for the underlying loans held by the VIE.

See note 17 for additional information related to these consolidated entities.

*x) Accounting Changes*

*Short-Duration Contracts*

On December 31, 2016, we adopted new disclosure requirements for short-duration insurance contracts. The new guidance requires additional disclosures on short-duration policy and contract claims liabilities for incurred and paid claims development, unpaid claims and claims frequency. This new guidance did not have an impact on our consolidated financial statements but did impact our disclosures. See note 10 for more information related to our short-duration contracts.

*Technical Corrections and Improvements*

On December 31, 2016, we adopted new guidance related to technical corrections and improvements. The Financial Accounting Standards Board ( the FASB ) issued this new guidance to remove inconsistencies as well as make technical clarifications and minor improvements intended to make it easier to understand and implement certain accounting guidance. Impacts of the new guidance for us includes: promoting consistent use of the terms participating insurance and reinsurance recoverable, removing the term debt from the master glossary; adding a reference to use when accounting for internal-use software licensed from third parties; clarifying that loans issued under the Federal Housing Administration and the Veterans Administration do not have to be fully insured by those programs to recognize profit using the full-accrual method; clarifying the difference between a valuation approach and a valuation technique when applying fair value guidance and require disclosure when there has been a change in either a valuation approach, a valuation technique, or both; clarifying that for an amount of an obligation under an arrangement to be considered fixed at the reporting date, the amount that must be fixed is not the amount that is the organization s portion of the obligation, but, rather, is the obligation in its entirety; and adding guidance on the accounting for the sale of servicing rights when the transferor retains loans. Most of the amendments are effective immediately or, in some cases for us, on January 1, 2017, using a prospective method. Accordingly, we did not have and do not expect any significant impact from this guidance on our consolidated financial statements.

*Consolidation*

On January 1, 2016, we adopted new accounting guidance related to consolidation. The new guidance primarily impacts limited partnerships and similar legal entities, evaluation of fees paid to a decision maker as a variable interest, the effect of fee arrangements and related parties on the primary beneficiary determination and certain investment funds. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

*Debt Issuance Costs*

On December 31, 2015, we early adopted new accounting guidance related to the presentation of debt issuance costs. The new guidance requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance was applied on a retrospective basis. Upon

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

adoption, in our consolidated balance sheet as of December 31, 2014, we recorded a reduction in other assets and total assets of $42 million, with a related reduction in long-term debt of $27 million, a reduction in non-recourse funding obligations of $15 million and a reduction in total liabilities of $42 million. We also adopted new guidance that allows debt issuance costs related to revolving credit facilities to be presented as either an asset or as a direct deduction from the carrying amount of that debt liability. We elected to continue to present debt issuance costs related to revolving credit facilities in other assets in our consolidated balance sheet. See note 12 for more information related to our long-term debt and non-recourse funding obligations.

*Financial Assets and Liabilities of a Collateralized Financing Entity*

On January 1, 2015, we early adopted new accounting guidance related to measuring the financial assets and financial liabilities of a consolidated collateralized financing entity. The guidance addresses 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 an 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. There was no impact on our consolidated financial statements.

*Repurchase Financings*

On January 1, 2015, we adopted new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financings. The new guidance changed the accounting for repurchase-to-maturity transactions and repurchase financing such that they were consistent with secured borrowing accounting. In addition, the guidance required new disclosures for all repurchase agreements and securities lending transactions which were effective beginning in the second quarter of 2015. We do not have repurchase-to-maturity transactions, but have repurchase agreements and securities lending transactions that are subject to additional disclosures. This new guidance did not have an impact on our consolidated financial statements but did impact our disclosures.

*Investments In Affordable Housing Projects*

On January 1, 2015, we adopted new accounting guidance related to the accounting for investments in affordable housing projects that qualify for the low-income housing tax credit. The new guidance permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects by amortizing the initial cost of the investment in proportion to the tax benefits received and recognize the net investment performance as a component of income tax expense (called the proportional amortization method) if certain conditions are met. The new guidance requires use of the equity method or cost method for investments in qualified affordable housing projects not accounted for using the proportional amortization method. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

*Share-Based Payment Awards*

On January 1, 2015, we early adopted new accounting guidance related to the accounting for share-based payment awards when the terms of an award provide that a performance target can be achieved after the requisite service period. The guidance requires that such performance targets should not be reflected in estimating the grant-date fair value of an award, and that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. We have performance stock unit grants where

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

awards for employees who are retirement eligible can vest on a pro-rata basis upon retirement even if retirement occurs before the performance target is achieved. There was no impact on our consolidated financial statements from the adoption of this accounting guidance.

*Investment Companies*

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.

*y) Accounting Pronouncements Not Yet Adopted*

In November 2016, the FASB issued new accounting guidance related to the classification and presentation of changes in restricted cash. The new guidance requires that changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents be shown in the statement of cash flows and requires additional disclosures related to restricted cash and restricted cash equivalents. We do not expect any significant impacts from this new guidance on our consolidated financial statements or disclosures.

In August 2016, the FASB issued new guidance related to the statement of cash flows classification of certain cash payments and cash receipts. The guidance will reduce diversity in practice related to eight specific cash flow issues. The new guidance is effective for us on January 1, 2018, with early adoption permitted. We do not expect any significant impacts from this guidance on our consolidated financial statements.

In June 2016, the FASB issued new guidance related to accounting for credit losses on financial instruments. The guidance requires that entities recognize an allowance equal to its estimate of lifetime expected credit losses and applies to most debt instruments not measured at fair value, which would primarily include our commercial mortgage loans and reinsurance receivables. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. The new guidance is effective for us on January 1, 2020, with early adoption permitted beginning January 1, 2019. Upon adoption, a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption will be recorded. We plan to start a process in 2017 to determine the impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the accounting for stock compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted the new guidance on January 1, 2017, recording a previously disallowed deferred tax asset of $9 million with a corresponding increase to retained earnings.

In March 2016, the FASB issued new accounting guidance related to transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The guidance is effective for us on January 1, 2017. We do not expect any significant impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the assessment of contingent put and call options in debt instruments. The guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The guidance is effective for us on January 1, 2017. This guidance is consistent with our previous accounting practices and, accordingly, we do not expect any impact on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the effect of derivative contract novations on existing hedge accounting relationships. The guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The guidance is effective for us on January 1, 2017. This guidance is consistent with our accounting for derivative contract novations and, accordingly, we do not expect any impact on our consolidated financial statements.

In February 2016, the FASB issued new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-to-use asset and a corresponding liability on the balance sheet. The guidance is effective for us on January 1, 2019, with early adoption permitted. While we are still evaluating the full impact, at this time we do not expect any significant impact from this guidance on our consolidated financial statements.

In January 2016, the FASB issued new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. Changes to the current financial instruments accounting primarily affects equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Under the new guidance, equity investments with readily determinable fair value, except those accounted for under the equity method of accounting, will be measured at fair value with changes in fair value recognized in net income (loss). The new guidance also clarifies that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with other deferred tax assets. This new guidance will be effective for us on January 1, 2018. We are still in process of evaluating the impact the guidance may have on our consolidated financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue from contracts with customers, effective for us on January 1, 2018. 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 standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. Insurance contracts are specifically excluded from this new guidance. The FASB has clarified the scope that all of our insurance contracts, including mortgage insurance, and investment contracts are excluded from the scope of this new guidance. As such, while we are still evaluating the full impact, at this time we do not expect any significant impacts from this new guidance on our consolidated financial statements.

227

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

### (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 common shares outstanding for the years ended December 31:

| **(Amounts in millions, except per share amounts)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Weighted-average common shares used in basic earnings (loss) per common share calculations | 498.3 | 497.4 | 496.4 |
| Potentially dilutive securities: | | | |
| Stock options, restricted stock units and stock appreciation rights | | | |
| Weighted-average common shares used in diluted earnings (loss) per common share calculations [1] | 498.3 | 497.4 | 496.4 |
| Loss from continuing operations: | | | |
| Loss from continuing operations | $ (38) | $ (6) | $ (1,205) |
| Less: income from continuing operations attributable to noncontrolling interests | 210 | 202 | 196 |
| Loss from continuing operations available to Genworth Financial, Inc. s common stockholders | $ (248) | $ (208) | $ (1,401) |
| Basic per common share | $ (0.50) | $ (0.42) | $ (2.82) |
| Diluted per common share | $ (0.50) | $ (0.42) | $ (2.82) |
| Income (loss) from discontinued operations: | | | |
| Income (loss) from discontinued operations, net of taxes | $ (29) | $ (407) | $ 157 |
| 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 | $ (29) | $ (407) | $ 157 |
| Basic per common share | $ (0.06) | $ (0.82) | $ 0.32 |
| Diluted per common share | $ (0.06) | $ (0.82) | $ 0.32 |
| Net loss: | | | |

| | | | |
|---|---|---|---|
| Loss from continuing operations | $ (38) | $ (6) | $ (1,205) |
| Income (loss) from discontinued operations, net of taxes | (29) | (407) | 157 |
| Net loss | (67) | (413) | (1,048) |
| Less: net income attributable to noncontrolling interests | 210 | 202 | 196 |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |
| Basic per common share | $ (0.56) | $ (1.24) | $ (2.51) |
| Diluted per common share | $ (0.56) | $ (1.24) | $ (2.51) |

(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 for the years ended December 31, 2016, 2015 and 2014, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the years ended December 31, 2016, 2015 and 2014, as the inclusion of shares for stock options, restricted stock units ( RSUs ) and stock appreciation

228

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

rights ( SARs ) of 2.0 million, 1.6 million and 5.6 million, respectively, would have been antidilutive to the calculation. If we had not incurred a loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the years ended December 31, 2016, 2015 and 2014, dilutive potential weighted-average common shares outstanding would have been 500.3 million, 499.0 million and 502.0 million, respectively.

## (4) Investments

*(a) Net Investment Income*

Sources of net investment income were as follows for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Fixed maturity securities taxable | $ 2,565 | $ 2,558 | $ 2,598 |
| Fixed maturity securities non-taxable | 12 | 12 | 12 |
| Commercial mortgage loans | 318 | 337 | 333 |
| Restricted commercial mortgage loans related to securitization entities [1] | 10 | 14 | 14 |
| Equity securities | 28 | 15 | 14 |
| Other invested assets [2] | 141 | 135 | 105 |
| Restricted other invested assets related to securitization entities [1] | 3 | 5 | 5 |
| Policy loans | 146 | 137 | 129 |
| Cash, cash equivalents and short-term investments | 20 | 13 | 24 |
| Gross investment income before expenses and fees | 3,243 | 3,226 | 3,234 |
| Expenses and fees | (84) | (88) | (92) |
| Net investment income | $ 3,159 | $ 3,138 | $ 3,142 |

(1) See note 17 for additional information related to consolidated securitization entities.

(2) Included in other invested assets was $11 million, $9 million and $8 million of net investment income related to trading securities for the years ended December 31, 2016, 2015 and 2014, respectively.

229

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(b) Net Investment Gains (Losses)*

The following table sets forth net investment gains (losses) for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Available-for-sale securities: | | | |
| Realized gains | $ 249 | $ 102 | $ 72 |
| Realized losses | (121) | (82) | (46) |
| Net realized gains (losses) on available-for-sale securities | 128 | 20 | 26 |
| Impairments: | | | |
| Total other-than-temporary impairments | (40) | (28) | (9) |
| Portion of other-than-temporary impairments included in other comprehensive income (loss) | | 1 | |
| Net other-than-temporary impairments | (40) | (27) | (9) |
| Trading securities | 10 | (7) | 39 |
| Commercial mortgage loans | 1 | 7 | 11 |
| Net gains (losses) related to securitization entities [1] | (50) | 5 | 16 |
| Derivative instruments [2] | 20 | (76) | (103) |
| Contingent consideration adjustment | (2) | 2 | (2) |
| Other | 5 | 1 | |
| Net investment gains (losses) | $ 72 | $ (75) | $ (22) |

(1) See note 17 for additional information related to consolidated securitization entities.

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

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 years ended December 31, 2016, 2015 and 2014 was $1,881 million, $1,827 million and $857 million, respectively, which was approximately 95%, 96% and 95%, respectively, of book value.

The following represents the activity for credit losses recognized in net loss on debt securities where an other-than-temporary impairment was identified and a portion of other-than-temporary impairments was included in OCI as of and for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Beginning balance | $ 64 | $ 83 | $ 101 |
| Additions: | | | |
| Other-than-temporary impairments not previously recognized | 1 | | 1 |
| Increases related to other-than-temporary impairments previously recognized | | | 1 |
| Reductions: | | | |
| Securities sold, paid down or disposed | (23) | (19) | (20) |
| Ending balance | $ 42 | $ 64 | $ 83 |

230

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(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 December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Net unrealized gains (losses) on investment securities: | | | |
| Fixed maturity securities | $ 3,656 | $ 3,140 | $ 5,560 |
| Equity securities | 12 | (10) | 32 |
| Other invested assets | | | (2) |
| Subtotal [(1)] | 3,668 | 3,130 | 5,590 |
| Adjustments to DAC, PVFP, sales inducements and benefit reserves | (1,611) | (1,070) | (1,656) |
| Income taxes, net | (711) | (711) | (1,372) |
| Net unrealized investment gains (losses) | 1,346 | 1,349 | 2,562 |
| Less: net unrealized investment gains (losses) attributable to noncontrolling interests | 84 | 95 | 109 |
| Net unrealized investment gains (losses) attributable to Genworth Financial, Inc. | $ 1,262 | $ 1,254 | $ 2,453 |

(1) Excludes foreign exchange.

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 years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Beginning balance | $ 1,254 | $ 2,453 | $ 926 |
| Unrealized gains (losses) arising during the period: | | | |
| Unrealized gains (losses) on investment securities | 626 | (2,467) | 3,244 |
| Adjustment to DAC | (499) | 177 | (172) |
| Adjustment to PVFP | (5) | 89 | (66) |
| Adjustment to sales inducements | (16) | 30 | (15) |
| Adjustment to benefit reserves | (21) | 290 | (534) |
| Provision for income taxes | (31) | 663 | (862) |

| | | | |
|---|---|---|---|
| Change in unrealized gains (losses) on investment securities | 54 | (1,218) | 1,595 |
| Reclassification adjustments to net investment (gains) losses, net of taxes of $31, $(2) and $7 | (57) | 5 | (12) |
| Change in net unrealized investment gains (losses) | (3) | (1,213) | 1,583 |
| Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests | (11) | (14) | 56 |
| Ending balance | $ 1,262 | $ 1,254 | $ 2,453 |

231

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(d) Fixed Maturity and Equity Securities*

As of December 31, 2016, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

| | | 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 | $ 5,439 | $ 647 | $ | $ (50) | $ | $ 6,036 |
| State and political subdivisions | 2,515 | 182 | | (50) | | 2,647 |
| Non-U.S. government | 2,024 | 101 | | (18) | | 2,107 |
| U.S. corporate: | | | | | | |
| Utilities | 4,137 | 454 | | (41) | | 4,550 |
| Energy | 2,167 | 157 | | (24) | | 2,300 |
| Finance and insurance | 5,719 | 424 | | (46) | | 6,097 |
| Consumer non-cyclical | 4,335 | 433 | | (34) | | 4,734 |
| Technology and communications | 2,473 | 157 | | (32) | | 2,598 |
| Industrial | 1,161 | 76 | | (14) | | 1,223 |
| Capital goods | 2,043 | 228 | | (13) | | 2,258 |
| Consumer cyclical | 1,455 | 92 | | (17) | | 1,530 |
| Transportation | 1,121 | 86 | | (17) | | 1,190 |
| Other | 332 | 17 | | (1) | | 348 |
| Total U.S. corporate | 24,943 | 2,124 | | (239) | | 26,828 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 940 | 40 | | (11) | | 969 |
| Energy | 1,234 | 109 | | (12) | | 1,331 |
| Finance and insurance | 2,413 | 134 | | (9) | | 2,538 |
| Consumer non-cyclical | 711 | 17 | | (14) | | 714 |
| Technology and communications | 953 | 44 | | (10) | | 987 |
| Industrial | 928 | 39 | | (9) | | 958 |
| Capital goods | 518 | 21 | | (4) | | 535 |
| Consumer cyclical | 434 | 10 | | (2) | | 442 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Transportation | 619 | 65 | | (7) | | 677 |
| Other | 2,967 | 190 | | (13) | | 3,144 |
| Total non-U.S. corporate | 11,717 | 669 | | (91) | | 12,295 |
| Residential mortgage-backed | 4,122 | 259 | 10 | (12) | | 4,379 |
| Commercial mortgage-backed | 3,084 | 98 | 3 | (56) | | 3,129 |
| Other asset-backed | 3,170 | 15 | 1 | (35) | | 3,151 |
| Total fixed maturity securities | 57,014 | 4,095 | 14 | (551) | | 60,572 |
| Equity securities | 628 | 31 | | (27) | | 632 |
| Total available-for-sale securities | $ 57,642 | $ 4,126 | $ 14 | $ (578) | $ | $ 61,204 |

232

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

As of December 31, 2015, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

| | | 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 | $ 5,487 | $ 732 | $ | $ (16) | $ | $ 6,203 |
| State and political subdivisions | 2,287 | 181 | | (30) | | 2,438 |
| Non-U.S. government | 1,910 | 110 | | (5) | | 2,015 |
| U.S. corporate: | | | | | | |
| Utilities | 3,355 | 364 | | (26) | | 3,693 |
| Energy | 2,560 | 103 | | (162) | | 2,501 |
| Finance and insurance | 5,268 | 392 | 15 | (43) | | 5,632 |
| Consumer non-cyclical | 3,755 | 371 | | (30) | | 4,096 |
| Technology and communications | 2,108 | 123 | | (38) | | 2,193 |
| Industrial | 1,164 | 53 | | (44) | | 1,173 |
| Capital goods | 1,774 | 188 | | (12) | | 1,950 |
| Consumer cyclical | 1,602 | 95 | | (22) | | 1,675 |
| Transportation | 1,023 | 75 | | (12) | | 1,086 |
| Other | 385 | 22 | | (5) | | 402 |
| Total U.S. corporate | 22,994 | 1,786 | 15 | (394) | | 24,401 |
| Non-U.S. corporate: | | | | | | |
| Utilities | 815 | 37 | | (9) | | 843 |
| Energy | 1,700 | 64 | | (78) | | 1,686 |
| Finance and insurance | 2,327 | 152 | 2 | (8) | | 2,473 |
| Consumer non-cyclical | 746 | 24 | | (18) | | 752 |
| Technology and communications | 978 | 36 | | (26) | | 988 |
| Industrial | 1,063 | 19 | | (96) | | 986 |
| Capital goods | 602 | 19 | | (17) | | 604 |
| Consumer cyclical | 522 | 8 | | (4) | | 526 |
| Transportation | 559 | 52 | | (6) | | 605 |
| Other | 2,574 | 187 | | (25) | | 2,736 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-U.S. corporate | 11,886 | 598 | 2 | (287) | | 12,199 |
| Residential mortgage-backed | 4,777 | 330 | 11 | (17) | | 5,101 |
| Commercial mortgage-backed | 2,492 | 84 | 3 | (20) | | 2,559 |
| Other asset-backed | 3,328 | 11 | 1 | (59) | | 3,281 |
| Total fixed maturity securities | 55,161 | 3,832 | 32 | (828) | | 58,197 |
| Equity securities | 325 | 8 | | (23) | | 310 |
| Total available-for-sale securities | $ 55,486 | $ 3,840 | $ 32 | $ (851) | $ | $ 58,507 |

233

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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, 2016:

| | 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 | Number of securities | Fair value | Gross unrealized losses | Number of securities |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 1,074 | $ (50) | 37 | $ | $ | | $ 1,074 | $ (50) | 37 |
| State and political subdivisions | 644 | (32) | 109 | 142 | (18) | 12 | 786 | (50) | 121 |
| Non-U.S. government | 497 | (18) | 51 | | | | 497 | (18) | 51 |
| U.S. corporate | 5,221 | (190) | 711 | 662 | (49) | 94 | 5,883 | (239) | 805 |
| Non-U.S. corporate | 2,257 | (66) | 330 | 408 | (25) | 57 | 2,665 | (91) | 387 |
| Residential mortgage-backed | 725 | (11) | 100 | 58 | (1) | 35 | 783 | (12) | 135 |
| Commercial mortgage-backed | 1,091 | (55) | 168 | 25 | (1) | 9 | 1,116 | (56) | 177 |
| Other asset-backed | 1,069 | (13) | 184 | 328 | (22) | 68 | 1,397 | (35) | 252 |
| Subtotal, fixed maturity securities | 12,578 | (435) | 1,690 | 1,623 | (116) | 275 | 14,201 | (551) | 1,965 |
| Equity securities | 119 | (9) | 182 | 114 | (18) | 47 | 233 | (27) | 229 |
| Total for securities in an unrealized loss position | $ 12,697 | $ (444) | 1,872 | $ 1,737 | $ (134) | 322 | $ 14,434 | $ (578) | 2,194 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 12,578 | $ (435) | 1,690 | $ 1,543 | $ (90) | 267 | $ 14,121 | $ (525) | 1,957 |
| 20%-50% Below cost | | | | 80 | (26) | 8 | 80 | (26) | 8 |
| >50% Below cost | | | | | | | | | |
| Total fixed maturity securities | 12,578 | (435) | 1,690 | 1,623 | (116) | 275 | 14,201 | (551) | 1,965 |
| % Below cost equity securities: | | | | | | | | | |
| <20% Below cost | 118 | (8) | 167 | 101 | (14) | 38 | 219 | (22) | 205 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 20%-50% Below cost | 1 | (1) | 15 | 13 | (4) | 9 | 14 | (5) | 24 |
| Total equity securities | 119 | (9) | 182 | 114 | (18) | 47 | 233 | (27) | 229 |
| Total for securities in an unrealized loss position | $ 12,697 | $ (444) | 1,872 | $ 1,737 | $ (134) | 322 | $ 14,434 | $ (578) | 2,194 |
| Investment grade | $ 12,339 | $ (432) | 1,657 | $ 1,354 | $ (108) | 250 | $ 13,693 | $ (540) | 1,907 |
| Below investment grade | 358 | (12) | 215 | 383 | (26) | 72 | 741 | (38) | 287 |
| Total for securities in an unrealized loss position | $ 12,697 | $ (444) | 1,872 | $ 1,737 | $ (134) | 322 | $ 14,434 | $ (578) | 2,194 |

234

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of December 31, 2016:

| (Dollar amounts in millions) | Less than 12 months Fair value | Gross unrealized losses | Number of securities | 12 months or more Fair value | Gross unrealized losses | Number of securities | Total Fair value | Gross unrealized losses | Number of securities |
|---|---|---|---|---|---|---|---|---|---|
| **Description of Securities** | | | | | | | | | |
| U.S. corporate: | | | | | | | | | |
| Utilities | $ 855 | $ (39) | 130 | $ 21 | $ (2) | 5 | $ 876 | $ (41) | 135 |
| Energy | 190 | (5) | 30 | 276 | (19) | 38 | 466 | (24) | 68 |
| Finance and insurance | 1,438 | (38) | 177 | 113 | (8) | 15 | 1,551 | (46) | 192 |
| Consumer non-cyclical | 921 | (34) | 117 | | | | 921 | (34) | 117 |
| Technology and communications | 507 | (22) | 70 | 126 | (10) | 17 | 633 | (32) | 87 |
| Industrial | 226 | (7) | 38 | 77 | (7) | 10 | 303 | (14) | 48 |
| Capital goods | 322 | (12) | 50 | 6 | (1) | 1 | 328 | (13) | 51 |
| Consumer cyclical | 431 | (16) | 56 | 26 | (1) | 6 | 457 | (17) | 62 |
| Transportation | 302 | (16) | 41 | 17 | (1) | 2 | 319 | (17) | 43 |
| Other | 29 | (1) | 2 | | | | 29 | (1) | 2 |
| Subtotal, U.S. corporate securities | 5,221 | (190) | 711 | 662 | (49) | 94 | 5,883 | (239) | 805 |
| Non-U.S. corporate: | | | | | | | | | |
| Utilities | 240 | (10) | 32 | 14 | (1) | 1 | 254 | (11) | 33 |
| Energy | 105 | (3) | 18 | 91 | (9) | 16 | 196 | (12) | 34 |
| Finance and insurance | 474 | (8) | 79 | 71 | (1) | 16 | 545 | (9) | 95 |
| Consumer non-cyclical | 308 | (14) | 30 | | | | 308 | (14) | 30 |
| Technology and communications | 232 | (9) | 34 | 28 | (1) | 2 | 260 | (10) | 36 |
| Industrial | 165 | (5) | 21 | 91 | (4) | 10 | 256 | (9) | 31 |
| Capital goods | 104 | (2) | 14 | 28 | (2) | 2 | 132 | (4) | 16 |
| Consumer cyclical | 90 | (2) | 17 | | | | 90 | (2) | 17 |
| Transportation | 106 | (5) | 16 | 25 | (2) | 2 | 131 | (7) | 18 |
| Other | 433 | (8) | 69 | 60 | (5) | 8 | 493 | (13) | 77 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Subtotal, non-U.S. corporate securities | 2,257 | (66) | 330 | 408 | (25) | 57 | 2,665 | (91) | 387 |
| Total for corporate securities in an unrealized loss position | $ 7,478 | $ (256) | 1,041 | $ 1,070 | $ (74) | 151 | $ 8,548 | $ (330) | 1,192 |

As indicated in the tables 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 the increase in interest rates, mostly concentrated in our corporate securities. 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 3% as of December 31, 2016.

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

Of the $90 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 BBB and approximately

235

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

71% of the unrealized losses were related to investment grade securities as of December 31, 2016. These unrealized losses were predominantly attributable to corporate securities including variable rate securities purchased in a higher rate and lower spread environment. The average fair value percentage below cost for these securities was approximately 6% as of December 31, 2016. 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 December 31, 2016:

| | 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: | | | | | | | | |
| State and political subdivisions | $ 9 | $ (3) | 1% | 1 | $ | $ | % | |
| U.S. corporate: | | | | | | | | |
| Energy | 13 | (4) | 1 | 1 | | | | |
| Finance and insurance | 12 | (3) | 1 | 1 | | | | |
| Total U.S. corporate | 25 | (7) | 2 | 2 | | | | |
| Non-U.S. corporate: | | | | | | | | |
| Energy | 2 | (1) | | 1 | | | | |
| Total non-U.S. corporate | 2 | (1) | | 1 | | | | |
| Structured securities: | | | | | | | | |
| Other asset-backed | 44 | (15) | 3 | 4 | | | | |
| Total structured securities | 44 | (15) | 3 | 4 | | | | |
| Total | $ 80 | $ (26) | 6% | 8 | $ | $ | % | |

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

*U.S. corporate*

As indicated above, $7 million of gross unrealized losses were related to U.S. corporate fixed maturity securities that have been in an unrealized loss position for more than 12 months and were more than 20% below cost. Of the total unrealized losses for U.S. corporate fixed maturity securities, $4 million, or 57%, related to the energy sector and $3 million, or 43%, related to the finance and insurance sector. Ongoing low oil prices have impacted the fair value of these securities.

We expect that our investments in U.S. corporate securities will continue to perform in accordance with our expectations about the amount and timing of estimated cash flows. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in U.S. corporate securities may perform worse than current expectations. Such events may lead us to recognize write-downs within our portfolio of U.S. corporate securities in the future.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

*Structured Securities*

Of the $15 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, none 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 consider 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 use 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 December 31, 2016.

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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, 2015:

| | **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** | **Number of securities** | **Fair value** | **Gross unrealized losses** | **Number of securities** |
| **Description of Securities** | | | | | | | | | |
| Fixed maturity securities: | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 883 | $ (16) | 32 | $ | $ | | $ 883 | $ (16) | 32 |
| State and political subdivisions | 464 | (15) | 81 | 163 | (15) | 17 | 627 | (30) | 98 |
| Non-U.S. government | 366 | (5) | 49 | | | | 366 | (5) | 49 |
| U.S. corporate | 5,836 | (332) | 817 | 466 | (62) | 83 | 6,302 | (394) | 900 |
| Non-U.S. corporate | 3,016 | (170) | 400 | 486 | (117) | 87 | 3,502 | (287) | 487 |
| Residential mortgage-backed | 756 | (10) | 88 | 103 | (7) | 38 | 859 | (17) | 126 |
| Commercial mortgage-backed | 780 | (19) | 116 | 39 | (1) | 13 | 819 | (20) | 129 |
| Other asset-backed | 1,944 | (22) | 349 | 336 | (37) | 55 | 2,280 | (59) | 404 |
| Subtotal, fixed maturity securities | 14,045 | (589) | 1,932 | 1,593 | (239) | 293 | 15,638 | (828) | 2,225 |
| Equity securities | 153 | (23) | 64 | | | | 153 | (23) | 64 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |
| % Below cost fixed maturity securities: | | | | | | | | | |
| <20% Below cost | $ 13,726 | $ (472) | 1,877 | $ 1,259 | $ (78) | 238 | $ 14,985 | $ (550) | 2,115 |
| 20%-50% Below cost | 319 | (116) | 54 | 316 | (139) | 50 | 635 | (255) | 104 |
| >50% Below cost | | (1) | 1 | 18 | (22) | 5 | 18 | (23) | 6 |
| Total fixed maturity securities | 14,045 | (589) | 1,932 | 1,593 | (239) | 293 | 15,638 | (828) | 2,225 |
| % Below cost equity securities: | | | | | | | | | |
| <20% Below cost | 133 | (18) | 56 | | | | 133 | (18) | 56 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 20%-50% Below cost | 20 | (5) | 8 | | | | 20 | (5) | 8 |
| Total equity securities | 153 | (23) | 64 | | | | 153 | (23) | 64 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |
| Investment grade | $ 13,342 | $ (524) | 1,834 | $ 1,245 | $ (135) | 225 | $ 14,587 | $ (659) | 2,059 |
| Below investment grade | 856 | (88) | 162 | 348 | (104) | 68 | 1,204 | (192) | 230 |
| Total for securities in an unrealized loss position | $ 14,198 | $ (612) | 1,996 | $ 1,593 | $ (239) | 293 | $ 15,791 | $ (851) | 2,289 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of December 31, 2015:

| (Dollar amounts in millions) | Less than 12 months Fair value | Gross unrealized losses | Number of securities | 12 months or more Fair value | Gross unrealized losses | Number of securities | Total Fair value | Gross unrealized losses | Number of securities |
|---|---|---|---|---|---|---|---|---|---|
| **Description of Securities** | | | | | | | | | |
| U.S. corporate: | | | | | | | | | |
| Utilities | $ 485 | $ (25) | 74 | $ 14 | $ (1) | 7 | $ 499 | $ (26) | 81 |
| Energy | 1,162 | (134) | 163 | 131 | (28) | 22 | 1,293 | (162) | 185 |
| Finance and insurance | 1,142 | (35) | 160 | 94 | (8) | 15 | 1,236 | (43) | 175 |
| Consumer non-cyclical | 836 | (26) | 107 | 51 | (4) | 10 | 887 | (30) | 117 |
| Technology and communications | 658 | (36) | 95 | 23 | (2) | 5 | 681 | (38) | 100 |
| Industrial | 476 | (33) | 64 | 44 | (11) | 9 | 520 | (44) | 73 |
| Capital goods | 293 | (10) | 48 | 26 | (2) | 4 | 319 | (12) | 52 |
| Consumer cyclical | 427 | (18) | 60 | 63 | (4) | 10 | 490 | (22) | 70 |
| Transportation | 273 | (10) | 38 | 20 | (2) | 1 | 293 | (12) | 39 |
| Other | 84 | (5) | 8 | | | | 84 | (5) | 8 |
| Subtotal, U.S. corporate securities | 5,836 | (332) | 817 | 466 | (62) | 83 | 6,302 | (394) | 900 |
| Non-U.S. corporate: | | | | | | | | | |
| Utilities | 130 | (6) | 20 | 32 | (3) | 6 | 162 | (9) | 26 |
| Energy | 589 | (48) | 71 | 127 | (30) | 20 | 716 | (78) | 91 |
| Finance and insurance | 478 | (7) | 77 | 30 | (1) | 8 | 508 | (8) | 85 |
| Consumer non-cyclical | 261 | (14) | 27 | 37 | (4) | 4 | 298 | (18) | 31 |
| Technology and communications | 324 | (15) | 37 | 33 | (11) | 9 | 357 | (26) | 46 |
| Industrial | 495 | (54) | 67 | 110 | (42) | 18 | 605 | (96) | 85 |
| Capital goods | 154 | (8) | 22 | 41 | (9) | 9 | 195 | (17) | 31 |
| Consumer cyclical | 155 | (4) | 20 | | | | 155 | (4) | 20 |
| Transportation | 147 | (6) | 17 | | | | 147 | (6) | 17 |
| Other | 283 | (8) | 42 | 76 | (17) | 13 | 359 | (25) | 55 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Subtotal, non-U.S. corporate securities | 3,016 | (170) | 400 | 486 | (117) | 87 | 3,502 | (287) | 487 |
| Total for corporate securities in an unrealized loss position | $ 8,852 | $ (502) | 1,217 | $ 952 | $ (179) | 170 | $ 9,804 | $ (681) | 1,387 |

239

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The scheduled maturity distribution of fixed maturity securities as of December 31, 2016 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 | $ 1,701 | $ 1,721 |
| Due after one year through five years | 10,500 | 10,938 |
| Due after five years through ten years | 12,306 | 12,647 |
| Due after ten years | 22,131 | 24,607 |
| Subtotal | 46,638 | 49,913 |
| Residential mortgage-backed | 4,122 | 4,379 |
| Commercial mortgage-backed | 3,084 | 3,129 |
| Other asset-backed | 3,170 | 3,151 |
| Total | $ 57,014 | $ 60,572 |

As of December 31, 2016, $10,105 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of December 31, 2016, securities issued by finance and insurance, utilities and consumer non-cyclical industry groups represented approximately 22%, 14% and 14%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of December 31, 2016, 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.

As of December 31, 2016 and 2015, $42 million and $44 million, respectively, of securities were on deposit with various state government insurance departments in order to comply with relevant insurance regulations.

*(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 principal payments, amortization and allowance for loan losses.

240

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 December 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Property type: | | | | |
| Retail | $ 2,178 | 36% | $ 2,116 | 34% |
| Industrial | 1,533 | 25 | 1,562 | 25 |
| Office | 1,430 | 23 | 1,516 | 24 |
| Apartments | 455 | 7 | 465 | 8 |
| Mixed use | 245 | 4 | 234 | 4 |
| Other | 284 | 5 | 294 | 5 |
| Subtotal | 6,125 | 100% | 6,187 | 100% |
| Unamortized balance of loan origination fees and costs | (2) | | (2) | |
| Allowance for losses | (12) | | (15) | |
| Total | $ 6,111 | | $ 6,170 | |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Carrying value** | **% of total** | **Carrying value** | **% of total** |
| Geographic region: | | | | |
| Pacific | $ 1,567 | 27% | $ 1,581 | 26% |
| South Atlantic | 1,546 | 25 | 1,574 | 25 |
| Middle Atlantic | 915 | 15 | 890 | 14 |
| Mountain | 554 | 9 | 585 | 10 |
| West North Central | 435 | 7 | 416 | 7 |
| East North Central | 388 | 6 | 386 | 6 |
| West South Central | 311 | 5 | 294 | 5 |
| New England | 206 | 3 | 268 | 4 |
| East South Central | 203 | 3 | 193 | 3 |
| Subtotal | 6,125 | 100% | 6,187 | 100% |

| | | |
|---|---|---|
| Unamortized balance of loan origination fees and costs | (2) | (2) |
| Allowance for losses | (12) | (15) |
| Total | $ 6,111 | $ 6,170 |

241

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following tables set forth the aging of past due commercial mortgage loans by property type as of December 31:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 31 - 60 days past due | 61 - 90 days past due | Greater than 90 days past due | Total past due | Current | Total |
| Property type: | | | | | | |
| Retail | $ | $ | $ | $ | $ 2,178 | $ 2,178 |
| Industrial | 1 | | 12 | 13 | 1,520 | 1,533 |
| Office | | | | | 1,430 | 1,430 |
| Apartments | | | | | 455 | 455 |
| Mixed use | | | | | 245 | 245 |
| Other | | | | | 284 | 284 |
| Total recorded investment | $ 1 | $ | $ 12 | $ 13 | $ 6,112 | $ 6,125 |
| % of total commercial mortgage loans | % | % | % | % | 100% | 100% |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| (Amounts in millions) | 31 - 60 days past due | 61 - 90 days past due | Greater than 90 days past due | Total past due | Current | Total |
| Property type: | | | | | | |
| Retail | $ | $ | $ | $ | $ 2,116 | $ 2,116 |
| Industrial | | | | | 1,562 | 1,562 |
| Office | 6 | | 5 | 11 | 1,505 | 1,516 |
| Apartments | | | | | 465 | 465 |
| Mixed use | | | | | 234 | 234 |
| Other | | | | | 294 | 294 |
| Total recorded investment | $ 6 | $ | $ 5 | $ 11 | $ 6,176 | $ 6,187 |
| % of total commercial mortgage loans | % | % | % | % | 100% | 100% |

As of December 31, 2016 and 2015, 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 December 31, 2016 and 2015.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015, we modified or extended 16 and 21 commercial mortgage loans, respectively, with a total carrying value of $85 million and $110 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, but during the year ended December 31, 2016, one loan with a carrying value of $1 million at the time of modification was considered a troubled debt restructuring. This loan was sold in the fourth quarter of 2016.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth the allowance for credit losses and recorded investment in commercial mortgage loans as of or for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Allowance for credit losses: | | | |
| Beginning balance | $ 15 | $ 22 | $ 33 |
| Charge-offs | (6) | (4) | (1) |
| Recoveries | | | |
| Provision | 3 | (3) | (10) |
| Ending balance | $ 12 | $ 15 | $ 22 |
| Ending allowance for individually impaired loans | $ | $ | $ |
| Ending allowance for loans not individually impaired that were evaluated collectively for impairment | $ 12 | $ 15 | $ 22 |
| Recorded investment: | | | |
| Ending balance | $ 6,125 | $ 6,187 | $ 6,123 |
| Ending balance of individually impaired loans | $ 12 | $ 19 | $ 15 |
| Ending balance of loans not individually impaired that were evaluated collectively for impairment | $ 6,113 | $ 6,168 | $ 6,108 |

As of December 31, 2015, we had an individually impaired commercial mortgage loan included within the industrial property type with a recorded investment of $14 million, an unpaid principal balance of $15 million and charge-offs of $1 million, which were recorded in the first quarter of 2014. As of December 31, 2015, this loan had interest income of $1 million. In the second quarter of 2016, we recorded additional charge-offs of $2 million related to this loan. As of December 31, 2016, the individually impaired loan within the industrial property type had a recorded investment of $12 million, an unpaid principal balance of $15 million and total charge-offs of $3 million.

As of December 31, 2015, we had an individually impaired commercial mortgage loan included within the office property type with a recorded investment of $5 million, an unpaid principal balance of $6 million and charge-offs of $1 million, which were recorded in the third quarter of 2015.

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 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

243

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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.

The following tables set forth the loan-to-value of commercial mortgage loans by property type as of December 31:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **0%-50%** | **51%-60%** | **61%-75%** | **76%-100%** | **Greater than 100% (1)** | **Total** |
| Property type: | | | | | | |
| Retail | $ 743 | $ 511 | $ 913 | $ 11 | $ | $ 2,178 |
| Industrial | 605 | 430 | 484 | 14 | | 1,533 |
| Office | 431 | 310 | 656 | 26 | 7 | 1,430 |
| Apartments | 188 | 89 | 173 | 5 | | 455 |
| Mixed use | 67 | 87 | 91 | | | 245 |
| Other | 60 | 30 | 194 | | | 284 |
| Total recorded investment | $ 2,094 | $ 1,457 | $ 2,511 | $ 56 | $ 7 | $ 6,125 |
| % of total | 34% | 24% | 41% | 1% | % | 100% |
| Weighted-average debt service coverage ratio | 2.20 | 1.88 | 1.61 | 0.80 | (0.07) | 1.87 |

(1) Included a loan with a recorded investment of $7 million in good standing, where the borrower continued to make timely payments, with a loan-to-value of 105%. We evaluated this loan on an individual basis and as it is in good standing, the current recorded investment is expected to be recoverable.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **0%-50%** | **51%-60%** | **61%-75%** | **76%-100%** | **Greater than 100% (1)** | **Total** |
| Property type: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Retail | $ 785 | $ 417 | $ 800 | $ 103 | $ 11 | $ 2,116 |
| Industrial | 515 | 478 | 499 | 65 | 5 | 1,562 |
| Office | 493 | 341 | 580 | 83 | 19 | 1,516 |
| Apartments | 196 | 66 | 182 | 21 | | 465 |
| Mixed use | 56 | 48 | 124 | 3 | 3 | 234 |
| Other | 54 | 55 | 185 | | | 294 |
| Total recorded investment | $ 2,099 | $ 1,405 | $ 2,370 | $ 275 | $ 38 | $ 6,187 |
| % of total | 34% | 23% | 38% | 4% | 1% | 100% |
| Weighted-average debt service coverage ratio | 2.13 | 1.82 | 1.57 | 1.12 | 0.55 | 1.79 |

(1) Included $38 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 123%.

244

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

The following tables set forth the debt service coverage ratio for fixed rate commercial mortgage loans by property type as of December 31:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| **(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 | $ 67 | $ 204 | $ 425 | $ 899 | $ 583 | $ 2,178 |
| Industrial | 71 | 113 | 236 | 599 | 514 | 1,533 |
| Office | 91 | 117 | 172 | 609 | 441 | 1,430 |
| Apartments | 19 | 22 | 44 | 217 | 153 | 455 |
| Mixed use | 2 | 9 | 19 | 128 | 87 | 245 |
| Other | 1 | 148 | 60 | 55 | 20 | 284 |
| Total recorded investment | $ 251 | $ 613 | $ 956 | $ 2,507 | $ 1,798 | $ 6,125 |
| % of total | 4% | 10% | 16% | 41% | 29% | 100% |
| Weighted-average loan-to-value | 61% | 60% | 59% | 58% | 45% | 55% |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| **(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 | $ 67 | $ 221 | $ 433 | $ 882 | $ 513 | $ 2,116 |
| Industrial | 94 | 181 | 208 | 672 | 407 | 1,562 |
| Office | 85 | 114 | 265 | 699 | 346 | 1,509 |
| Apartments | 6 | 41 | 74 | 199 | 145 | 465 |
| Mixed use | 3 | 11 | 28 | 135 | 57 | 234 |
| Other | | 58 | 146 | 60 | 30 | 294 |
| Total recorded investment | $ 255 | $ 626 | $ 1,154 | $ 2,647 | $ 1,498 | $ 6,180 |
| % of total | 4% | 10% | 19% | 43% | 24% | 100% |
| Weighted-average loan-to-value | 74% | 64% | 58% | 58% | 43% | 56% |

As of December 31, 2016, we did not have any floating rate commercial mortgage loans. As of December 31, 2015, we had floating rate commercial mortgage loans of $7 million.

*(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. See note 17 for additional information related to consolidated securitization entities.

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

We have consolidated securitization entities that hold certain investments that are recorded as restricted other invested assets related to securitization entities. The consolidated securitization entities hold certain investments as trading securities whereby the changes in fair value are recorded in current period income (loss).

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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. See note 17 for additional information related to consolidated securitization entities.

*(h) Limited Partnerships or Similar Entities*

Investments in limited partnerships or similar entities are generally considered VIEs when the equity group lacks sufficient financial control. Generally, these investments are limited partner or non-managing member equity investments in a widely held fund that is sponsored and managed by a reputable asset manager. We are not the primary beneficiary of any VIE investment in a limited partnership or similar entity. As of December 31, 2016 and 2015, the total carrying value of these investments was $178 million and $165 million, respectively. Our maximum exposure to loss is equal to the outstanding carrying value and future funding commitments. We have not contributed, and do not plan to contribute, any additional financial or other support outside of what is contractually obligated.

**(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 CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth our positions in derivative instruments as of December 31:

| | Derivative assets | | | Derivative liabilities | | |
|---|---|---|---|---|---|---|
| | Balance sheet | Fair value | | Balance sheet | Fair value | |
| **(Amounts in millions)** | **classification** | **2016** | **2015** | **classification** | **2016** | **2015** |
| **Derivatives designated as hedges** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate swaps | Other invested assets | $ 237 | $ 629 | Other liabilities | $ 203 | $ 37 |
| Inflation indexed swaps | Other invested assets | | | Other liabilities | | 33 |
| Foreign currency swaps | Other invested assets | 4 | 8 | Other liabilities | | |
| Total cash flow hedges | | 241 | 637 | | 203 | 70 |
| Total derivatives designated as hedges | | 241 | 637 | | 203 | 70 |
| **Derivatives not designated as hedges** | | | | | | |
| Interest rate swaps | Other invested assets | 359 | 425 | Other liabilities | 146 | 183 |
| Interest rate swaps related to securitization entities (1) | Restricted other invested assets | | | Other liabilities | | 30 |
| Foreign currency swaps | Other invested assets | | | Other liabilities | 5 | 27 |
| Credit default swaps | Other invested assets | | 1 | Other liabilities | | |
| Credit default swaps related to securitization entities (1) | Restricted other invested assets | | | Other liabilities | 1 | 14 |
| Equity index options | Other invested assets | 72 | 30 | Other liabilities | | |
| Financial futures | Other invested assets | | | Other liabilities | | |
| Equity return swaps | Other invested assets | 1 | 2 | Other liabilities | 1 | 1 |
| Other foreign currency contracts | Other invested assets | 35 | 17 | Other liabilities | 27 | 34 |
| GMWB embedded derivatives | Reinsurance recoverable (2) | 16 | 17 | Policyholder account balances (3) | 303 | 352 |
| Fixed index annuity embedded derivatives | Other assets | | | Policyholder account balances (4) | 344 | 342 |
| Indexed universal life embedded derivatives | Reinsurance recoverable | | | Policyholder account balances (5) | 11 | 10 |

| | | | | |
|---|---|---|---|---|
| Total derivatives not designated as hedges | 483 | 492 | 838 | 993 |
| Total derivatives | $ 724 | $ 1,129 | $ 1,041 | $ 1,063 |

(1) See note 17 for additional information related to consolidated securitization entities.

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

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

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

(5) Represents the embedded derivatives associated with our indexed universal life liabilities.

The fair value of derivative positions presented above was not offset by the respective collateral amounts received or provided under these agreements.

247

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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

| (Notional in millions) | Measurement | December 31, 2015 | Additions | Maturities/ terminations | December 31, 2016 |
|---|---|---|---|---|---|
| **Derivatives designated as hedges** | | | | | |
| Cash flow hedges: | | | | | |
| Interest rate swaps | Notional | $ 11,214 | $ 9,991 | $ (9,635) | $ 11,570 |
| Inflation indexed swaps | Notional | 571 | 1 | (572) | |
| Foreign currency swaps | Notional | 35 | | (13) | 22 |
| Total cash flow hedges | | 11,820 | 9,992 | (10,220) | 11,592 |
| Total derivatives designated as hedges | | 11,820 | 9,992 | (10,220) | 11,592 |
| **Derivatives not designated as hedges** | | | | | |
| Interest rate swaps | Notional | 4,932 | | (253) | 4,679 |
| Interest rate swaps related to securitization entities [1] | Notional | 67 | | (67) | |
| Foreign currency swaps | Notional | 162 | 146 | (107) | 201 |
| Credit default swaps | Notional | 144 | | (105) | 39 |
| Credit default swaps related to securitization entities [1] | Notional | 312 | | | 312 |
| Equity index options | Notional | 1,080 | 3,272 | (1,956) | 2,396 |
| Financial futures | Notional | 1,331 | 6,891 | (6,824) | 1,398 |
| Equity return swaps | Notional | 134 | 364 | (333) | 165 |
| Other foreign currency contracts | Notional | 1,656 | 3,478 | (2,004) | 3,130 |
| Total derivatives not designated as hedges | | 9,818 | 14,151 | (11,649) | 12,320 |
| Total derivatives | | $ 21,638 | $ 24,143 | $ (21,869) | $ 23,912 |

(1) See note 17 for additional information related to consolidated securitization entities.

| (Number of policies) | Measurement | December 31, 2015 | Additions | Maturities/ terminations | December 31, 2016 |
|---|---|---|---|---|---|
| **Derivatives not designated as hedges** | | | | | |
| GMWB embedded derivatives | Policies | 36,146 | | (2,908) | 33,238 |
| Fixed index annuity embedded derivatives | Policies | 17,482 | 666 | (599) | 17,549 |
| Indexed universal life embedded derivatives | Policies | 982 | 167 | (75) | 1,074 |

248

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*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 year ended December 31, 2016:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net loss from OCI | Classification of gain (loss) reclassified into net loss | Gain (loss) recognized in net loss [1] | Classification of gain (loss) recognized in net loss |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 198 | $ 112 | Net investment income | $ 3 | Net investment gains (losses) |
| Interest rate swaps hedging assets | | 2 | Net investment gains (losses) | | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (5) | | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | (5) | 2 | Net investment income | | Net investment gains (losses) |
| Inflation indexed swaps | | 7 | Net investment gains (losses) | | Net investment gains (losses) |
| Foreign currency swaps | (4) | | Net investment income | | Net investment gains (losses) |
| Foreign currency swaps | | | Net investment gains (losses) | 5 | Net investment gains (losses) |
| Total | $ 184 | $ 123 | | $ 8 | |

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

249

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the year ended December 31, 2015:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net loss from OCI | Classification of gain (loss) reclassified into net loss | Gain (loss) recognized in net loss (1) | Classification of gain (loss) recognized in net loss |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 78 | $ 85 | Net investment income | $ | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (10) | | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | 9 | | Net investment income | | Net investment gains (losses) |
| Foreign currency swaps | 2 | | Net investment income | | Net investment gains (losses) |
| Forward bond purchase commitments | | 1 | Net investment income | | Net investment gains (losses) |
| Forward bond purchase commitments | | 32 | Net investment gains (losses) | | Net investment gains (losses) |
| Total | $ 79 | $ 118 | | $ | |

(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 year ended December 31, 2014:

| (Amounts in millions) | Gain (loss) recognized in OCI | Gain (loss) reclassified into net loss from OCI | Classification of gain (loss) reclassified into net loss | Gain (loss) recognized in net loss (1) | Classification of gain (loss) recognized in net loss |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Interest rate swaps hedging assets | $ 1,229 | $ 63 | Net investment income | $ 15 | Net investment gains (losses) |
| Interest rate swaps hedging assets | | 2 | Net investment gains (losses) | | Net investment gains (losses) |
| Interest rate swaps hedging liabilities | (69) | 1 | Interest expense | | Net investment gains (losses) |
| Inflation indexed swaps | 17 | (9) | Net investment income | | Net investment gains (losses) |
| Foreign currency swaps | 4 | | Interest expense | | Net investment gains (losses) |
| Forward bond purchase commitments | 34 | | Net investment income | | Net investment gains (losses) |
| Total | $ 1,215 | $ 57 | | $ 15 | |

(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 CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table provides a reconciliation of current period changes, net of applicable income taxes, for these designated derivatives presented in the separate component of stockholders equity labeled derivatives qualifying as hedges, for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Derivatives qualifying as effective accounting hedges as of January 1 | $ 2,045 | $ 2,070 | $ 1,319 |
| Current period increases (decreases) in fair value, net of deferred taxes of $(64), $(29) and $(427) | 120 | 50 | 788 |
| Reclassification to net loss, net of deferred taxes of $43, $43 and $20 | (80) | (75) | (37) |
| Derivatives qualifying as effective accounting hedges as of December 31 | $ 2,085 | $ 2,045 | $ 2,070 |

The total of derivatives designated as cash flow hedges of $2,085 million, net of taxes, recorded in stockholders equity as of December 31, 2016 is expected to be reclassified to net income (loss) in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $85 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 2057. During the year ended December 31, 2016, we reclassified $10 million to net loss in connection with forecasted transactions that were no longer considered probable of occurring. There were immaterial amounts reclassified to net loss during the years ended December 31, 2015 and 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 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 years ended December 31, 2016, 2015 and 2014.

*Derivatives Not Designated As Hedges*

We also enter into certain non-qualifying derivative instruments such as: (i) interest rate swaps and financial futures to mitigate interest rate risk as part of managing regulatory capital positions; (ii) credit default swaps to enhance yield and reproduce characteristics of investments with similar terms and credit risk; (iii) equity index options, equity return swaps, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits, 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.

251

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 loss for the effects of derivatives not designated as hedges for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 | Classification of gain (loss) recognized in net loss |
|---|---|---|---|---|
| Interest rate swaps | $ 12 | $ (11) | $ 1 | Net investment gains (losses) |
| Interest rate swaps related to securitization entities [1] | (10) | (4) | (9) | Net investment gains (losses) |
| Foreign currency swaps | 4 | (22) | (7) | Net investment gains (losses) |
| Credit default swaps | 1 | 1 | 1 | Net investment gains (losses) |
| Credit default swaps related to securitization entities [1] | 18 | 7 | 19 | Net investment gains (losses) |
| Equity index options | 10 | (25) | (31) | Net investment gains (losses) |
| Financial futures | (111) | (34) | 90 | Net investment gains (losses) |
| Equity return swaps | (1) | (3) | 5 | Net investment gains (losses) |
| Forward bond purchase commitments | | 2 | | Net investment gains (losses) |
| Other foreign currency contracts | 24 | 10 | (4) | Net investment gains (losses) |
| GMWB embedded derivatives | 76 | (25) | (147) | Net investment gains (losses) |
| Fixed index annuity embedded derivatives | (22) | (7) | (27) | Net investment gains (losses) |
| Indexed universal life embedded derivatives | 10 | 6 | (1) | Net investment gains (losses) |
| Total derivatives not designated as hedges | $ 11 | $ (105) | $ (110) | |

(1) See note 17 for additional information related to consolidated securitization entities.

*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.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

The following table presents additional information about derivative assets and liabilities subject to an enforceable master netting arrangement as of December 31:

| (Amounts in millions) | 2016 Derivatives assets (1) | 2016 Derivatives liabilities (2) | 2016 Net derivatives | 2015 Derivatives assets (1) | 2015 Derivatives liabilities (2) | 2015 Net derivatives |
|---|---|---|---|---|---|---|
| Amounts presented in the balance sheet: | | | | | | |
| Gross amounts recognized | $ 724 | $ 387 | $ 337 | $ 1,135 | $ 320 | $ 815 |
| Gross amounts offset in the balance sheet | | | | | | |
| Net amounts presented in the balance sheet | 724 | 387 | 337 | 1,135 | 320 | 815 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Financial instruments (3) | (172) | (172) | | (231) | (231) | |
| Collateral received | (467) | | (467) | (642) | | (642) |
| Collateral pledged | | (557) | 557 | | (263) | 263 |
| Over collateralization | 1 | 344 | (343) | 3 | 174 | (171) |
| Net amount | $ 86 | $ 2 | $ 84 | $ 265 | $ | $ 265 |

(1) Included $16 million and $24 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of December 31, 2016 and 2015, respectively.

(2) Included $5 million and $6 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities as of December 31, 2016 and 2015, respectively.

(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 December 31, 2016 and 2015, we could have been allowed to claim $86 million and $265 million, respectively, or have been required to disburse up to $2 million as of December 31, 2016. There were no amounts that we would have been required to disburse as a result of our credit rating downgrades as of December 31, 2015. The chart above excludes 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.

253

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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

The following table sets forth our credit default swaps where we sell protection on single name reference entities and the fair values as of December 31:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **(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 | | | 39 | | |
| Total credit default swaps on single name reference entities | $ 39 | $ | $ | $ 39 | $ | $ |

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 December 31:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Notional value** | **Assets** | **Liabilities** | **Notional value** | **Assets** | **Liabilities** |
| Original index tranche attachment/detachment point and maturity: | | | | | | |
| 7% - 15% matures in less than one year [(1)] | $ | $ | $ | $ 100 | $ 1 | $ |
| Total credit default swap index tranches | | | | 100 | 1 | |
| Customized credit default swap index tranches related to securitization entities: | | | | | | |
| | 12 | | | 12 | | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Portion backing third-party borrowings maturing 2017 [(2)] | | | | | | |
| Portion backing our interest maturing 2017 [(3)] | 300 | | 1 | 300 | | 12 |
| Total customized credit default swap index tranches related to securitization entities | 312 | | 1 | 312 | | 14 |
| Total credit default swaps on index tranches | $ 312 | $ | $ 1 | $ 412 | $ 1 | $ 14 |

(1) The attachment/detachment as of December 31, 2015 was 7% 15%.

(2) Original notional value was $39 million.

(3) Original notional value was $300 million.

254

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

## (6) Deferred Acquisition Costs

The following table presents the activity impacting DAC as of and for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Unamortized balance as of January 1 | $ 4,569 | $ 5,200 | $ 5,214 |
| Impact of foreign currency translation | 3 | (23) | (15) |
| Costs deferred | 150 | 295 | 385 |
| Amortization, net of interest accretion | (481) | (448) | (384) |
| Impairment | | (455) | |
| Unamortized balance as of December 31 | 4,241 | 4,569 | 5,200 |
| Accumulated effect of net unrealized investment (gains) losses | (670) | (171) | (348) |
| Balance as of December 31 | $ 3,571 | $ 4,398 | $ 4,852 |

In the fourth quarter of 2016, as part of our annual review of assumptions, we had an increase in DAC amortization in our universal and term universal life insurance products by $144 million reflecting updated assumptions primarily for mortality experience in older age populations, partially offset by updated assumptions related to future policy charges. In the fourth quarter of 2015, as part of our annual review of assumptions, we increased DAC amortization by $109 million in our universal life insurance products, reflecting updated assumptions for persistency, long-term interest rates, mortality and other refinements as well as corrections related to reinsurance inputs.

We regularly review DAC to determine if it is recoverable from future income. In the second quarter of 2016, we performed our loss recognition testing and determined that we had a premium deficiency in our fixed immediate annuity products. The results of the test were primarily driven by the low interest rate environment in the second quarter of 2016. As a result, as of June 30, 2016, we wrote off the entire DAC balance for our fixed immediate annuity products of $14 million through amortization and increased our future policy benefit reserves by $18 million. As of December 31, 2016, we believe all of our other businesses had sufficient future income and therefore the related DAC was recoverable.

On September 30, 2015, Genworth Life and Annuity Insurance Company ( GLAIC ), our indirect wholly-owned subsidiary, entered into a Master Agreement (the Master Agreement ) for a life block transaction with Protective Life Insurance Company ( Protective Life ). Pursuant to the Master Agreement, GLAIC and Protective Life agreed to enter into a reinsurance agreement (the Reinsurance Agreement ), under the terms of which Protective Life would coinsure certain term life insurance business of GLAIC, net of third-party reinsurance. The Reinsurance Agreement was entered into in January 2016. In connection with entering into the Master Agreement, we recorded a DAC impairment of $455 million as a result of loss recognition testing of certain term life insurance policies as part of this life block transaction.

As of December 31, 2015, we believe all of our other businesses had sufficient future income and therefore the related DAC was recoverable.

255

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

## (7) Intangible Assets and Goodwill

The following table presents our intangible assets as of December 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| (Amounts in millions) | Gross carrying amount | Accumulated amortization | Gross carrying amount | Accumulated amortization |
| PVFP | $ 2,079 | $ (1,924) | $ 2,084 | $ (1,941) |
| Capitalized software | 447 | (352) | 445 | (351) |
| Deferred sales inducements to contractholders | 275 | (199) | 268 | (178) |
| Other | 61 | (53) | 66 | (50) |
| Total | $ 2,862 | $ (2,528) | $ 2,863 | $ (2,520) |

Amortization expense related to PVFP, capitalized software and other intangible assets for the years ended December 31, 2016, 2015 and 2014 was $17 million, $64 million and $70 million, respectively. Amortization expense related to deferred sales inducements of $21 million, $25 million and $30 million, respectively, for the years ended December 31, 2016, 2015 and 2014 was included in benefits and other changes in policy reserves.

*Present Value of Future Profits*

The following table presents the activity in PVFP as of and for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Unamortized balance as of January 1 | $ 205 | $ 229 | $ 246 |
| Interest accreted at 5.15%, 6.45% and 5.89% | 11 | 14 | 14 |
| Amortization | 6 | (38) | (31) |
| Unamortized balance as of December 31 | 222 | 205 | 229 |
| Accumulated effect of net unrealized investment (gains) losses | (67) | (62) | (151) |
| Balance as of December 31 | $ 155 | $ 143 | $ 78 |

We regularly review our assumptions and periodically test PVFP for recoverability in a manner similar to our treatment of DAC.

As of December 31, 2016 and 2015, we believe all of our businesses have sufficient future income and therefore the related PVFP is recoverable. During the fourth quarter of 2014, the loss recognition testing for our acquired block of long-term care insurance business resulted in a premium deficiency. As a result, we wrote off the entire PVFP balance for our long-term care insurance business of $6 million through amortization with a corresponding change to net unrealized investment gains (losses). The results of the test were driven by changes to assumptions and methodologies primarily impacting claim termination rates, most significantly in later-duration claims, and benefit utilization rates.

256

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The percentage of the December 31, 2016 PVFP balance net of interest accretion, before the effect of unrealized investment gains or losses, estimated to be amortized over each of the next five years is as follows:

| | |
|---|---|
| 2017 | 14.9% |
| 2018 | 9.6% |
| 2019 | 8.6% |
| 2020 | 7.7% |
| 2021 | 7.3% |

Amortization expense for PVFP in future periods will be affected by acquisitions, dispositions, net investment gains (losses) or other factors affecting the ultimate amount of gross profits realized from certain lines of business. Similarly, future amortization expense for other intangibles will depend on future acquisitions, dispositions and other business transactions.

*Goodwill*

As of December 31, 2016 and 2015, our goodwill balance was $14 million in each period. Of those amounts, as of December 31, 2016 and 2015, our Canada Mortgage Insurance segment has goodwill of $8 million in each period and our Australia Mortgage Insurance segment has goodwill of $6 million in each period.

No goodwill impairment charges were recorded in 2016 or 2015. During 2014, we wrote off the entire goodwill balance of our U.S. Life Insurance segment and recorded goodwill impairments of $849 million, including $354 million for our long-term care insurance reporting unit and $495 million for our life insurance reporting unit. As a result of market conditions, decreases in sales projections from negative rating actions and overall uncertainty created as a result of the long-term care insurance reserve increases, we recorded goodwill impairments in our long-term care and life insurance businesses. The uncertainty associated with the level and value of new business that a market participant would place on our long-term care and life insurance businesses resulted in concluding the goodwill balances were no longer recoverable.

**(8) Reinsurance**

We reinsure a portion of our policy risks to other insurance companies in order to reduce our ultimate losses, diversify our exposures and provide capital flexibility. We also assume certain policy risks written by other insurance companies. Reinsurance accounting is followed for assumed and ceded transactions when there is adequate risk transfer. Otherwise, the deposit method of accounting is followed.

Reinsurance does not relieve us from our obligations to policyholders. In the event that the reinsurers are unable to meet their obligations, we remain liable for the reinsured claims. We monitor both the financial condition of individual reinsurers and risk concentrations arising from similar geographic regions, activities and economic characteristics of reinsurers to lessen the risk of default by such reinsurers. Other than the relationship discussed below with Union Fidelity Life Insurance Company ( UFLIC ), we do not have significant concentrations of reinsurance with any one reinsurer that could have a material impact on our financial position.

As of December 31, 2016, the maximum amount of individual ordinary life insurance normally retained by us on any one individual life policy was $5 million.

We have several significant reinsurance transactions ( Reinsurance Transactions ) with UFLIC. In these transactions, we ceded to UFLIC in-force blocks of structured settlements issued prior to 2004, substantially all

257

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

of our in-force blocks of variable annuities issued prior to 2004 and a block of long-term care insurance policies that we reinsured in 2000 from MetLife Insurance Company USA. Although we remain directly liable under these contracts and policies as the ceding insurer, the Reinsurance Transactions have the effect of transferring the financial results of the reinsured blocks to UFLIC. As of December 31, 2016 and 2015, we had a reinsurance recoverable of $14,437 million and $14,363 million, respectively, associated with those Reinsurance Transactions.

To secure the payment of its obligations to us under the reinsurance agreements governing the Reinsurance Transactions, UFLIC has established trust accounts to maintain an aggregate amount of assets with a statutory book value at least equal to the statutory general account reserves attributable to the reinsured business less an amount required to be held in certain claims paying accounts. A trustee administers the trust accounts and we are permitted to withdraw from the trust accounts amounts due to us pursuant to the terms of the reinsurance agreements that are not otherwise paid by UFLIC. In addition, pursuant to a Capital Maintenance Agreement, General Electric Capital Corporation, an indirect subsidiary of General Electric Company ( GE ), previously agreed to maintain sufficient capital in UFLIC to maintain UFLIC s risk-based capital ( RBC ) at not less than 150% of its company action level, as defined from time to time by the National Association of Insurance Commissioners ( NAIC ). In connection with its announced realignment and reorganization of the business of General Electric Capital Corporation in December 2015, General Electric Capital Corporation merged with and into GE. As a result, GE is the successor obligor under the Capital Maintenance Agreement.

Under the terms of certain reinsurance agreements that our life insurance subsidiaries have with external parties, we pledged assets in either separate portfolios or in trust for the benefit of external reinsurers. These assets support the reserves ceded to those external reinsurers. We had pledged fixed maturity securities and commercial mortgage loans of $9,680 million and $523 million, respectively, as of December 31, 2016 and $8,324 million and $347 million, respectively, as of December 31, 2015 in connection with these reinsurance agreements. However, we maintain the ability to substitute these pledged assets for other qualified collateral, and may use, commingle, encumber or dispose of any portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level.

The following table sets forth net domestic life insurance in-force as of December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Direct life insurance in-force | $ 658,931 | $ 686,446 | $ 701,797 |
| Amounts assumed from other companies | 861 | 899 | 935 |
| Amounts ceded to other companies [1] | (491,466) | (411,340) | (393,244) |
| Net life insurance in-force | $ 168,326 | $ 276,005 | $ 309,488 |
| Percentage of amount assumed to net | % | % | % |

(1) Includes amounts accounted for under the deposit method.

258

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth the effects of reinsurance on premiums written and earned for the years ended December 31:

| | Written | | | Earned | | |
|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| Direct: | | | | | | |
| Life insurance | $ 977 | $ 1,030 | $ 1,131 | $ 978 | $ 1,030 | $ 1,131 |
| Accident and health insurance | 2,786 | 2,764 | 2,706 | 2,816 | 2,778 | 2,697 |
| Mortgage insurance | 1,641 | 1,754 | 1,814 | 1,561 | 1,514 | 1,588 |
| Total direct | 5,404 | 5,548 | 5,651 | 5,355 | 5,322 | 5,416 |
| Assumed: | | | | | | |
| Life insurance | 35 | 34 | 34 | 35 | 34 | 34 |
| Accident and health insurance | 331 | 342 | 343 | 335 | 347 | 348 |
| Mortgage insurance | 6 | 10 | 20 | 12 | 22 | 31 |
| Total assumed | 372 | 386 | 397 | 382 | 403 | 413 |
| Ceded: | | | | | | |
| Life insurance | (856) | (372) | (332) | (856) | (372) | (332) |
| Accident and health insurance | (629) | (682) | (708) | (638) | (688) | (706) |
| Mortgage insurance | (83) | (86) | (95) | (83) | (86) | (91) |
| Total ceded | (1,568) | (1,140) | (1,135) | (1,577) | (1,146) | (1,129) |
| Net premiums | $ 4,208 | $ 4,794 | $ 4,913 | $ 4,160 | $ 4,579 | $ 4,700 |
| Percentage of amount assumed to net | | | | 9% | 9% | 9% |

Reinsurance recoveries recognized as a reduction of benefits and other changes in policy reserves amounted to $3,008 million, $2,771 million and $2,846 million during 2016, 2015 and 2014, respectively.

**(9) Insurance Reserves**

*Future Policy Benefits*

The following table sets forth our recorded liabilities and the major assumptions underlying our future policy benefits as of December 31:

| (Amounts in millions) | Mortality/ morbidity assumption | Interest rate assumption | 2016 | 2015 |
|---|---|---|---|---|
| Long-term care insurance contracts | (a) | 3.75% - 7.50% | $ 21,590 | $ 20,563 |
| Structured settlements with life contingencies | (b) | 1.00% - 8.00% | 8,858 | 8,991 |
| Annuity contracts with life contingencies | (b) | 1.00% - 8.00% | 3,822 | 4,010 |
| Traditional life insurance contracts | (c) | 3.00% - 7.50% | 2,506 | 2,638 |
| Supplementary contracts with life contingencies | (b) | 1.00% - 8.00% | 284 | 269 |
| Accident and health insurance contracts | (d) | 3.50% - 6.00% | 3 | 4 |
| Total future policy benefits | | | $ 37,063 | $ 36,475 |

(a) The 1983 Individual Annuitant Mortality Table or 2000 U.S. Annuity Table, or the 1983 Group Annuitant Mortality Table or the 1994 Group Annuitant Mortality Table and company experience.

(b) Assumptions for limited-payment contracts come from either the U.S. Population Table, the 1983 Group Annuitant Mortality Table, the 1983 Individual Annuitant Mortality Table, the Annuity 2000 Mortality Table or the 2012 Individual Annuity Reserving Table.

(c) Principally modifications based on company experience of the Society of Actuaries 1965-70 or 1975-80 Select and the Ultimate Tables, the 1941, 1958, 1980 and 2001 Commissioner s Standard Ordinary Tables, the 1980 Commissioner s Extended Term table and (IA) Standard Table 1996 (modified).

(d) The 1958 and 1980 Commissioner s Standard Ordinary Tables, or the 2000 U.S. Annuity Table, or the 1983 Group Annuitant Mortality.

259

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

We regularly review our assumptions and perform loss recognition testing at least annually. In the second quarter of 2016, we performed our loss recognition testing and determined that we had a premium deficiency in our fixed immediate annuity products. The results of the test were primarily driven by the low interest rate environment in the second quarter of 2016. As a result, as of June 30, 2016, we wrote off the entire DAC balance for our fixed immediate annuity products of $14 million through amortization and increased our future policy benefit reserves by $18 million. In the third quarter of 2016, driven by aging of the in-force and the low interest rate environment, we determined that an additional premium deficiency existed in our fixed immediate annuity products that resulted in a further increase to our future policy benefit reserves of $6 million. The 2015 and 2014 tests did not result in a charge. The liability for future policy benefits for our fixed immediate annuity products represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could result in further increases in the related future policy benefit reserves for these products.

In the fourth quarter of 2014, loss recognition testing for our acquired block of long-term care insurance resulted in a premium deficiency. As a result, we wrote off the remaining PVFP balance of $6 million and increased reserves $710 million. The results of the test in 2014 were driven by changes to assumptions and methodologies primarily impacting claim termination rates, most significantly in later-duration claims, and benefit utilization rates. The 2016 and 2015 tests did not result in a charge. The liability for future policy benefits for our acquired block of long-term care insurance business represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant and result in further increases in the related future policy benefit reserves for this block of business by an amount that could be material to our results of operations and financial condition and liquidity.

As of December 31, 2016 and 2015, we accrued future policy benefit reserves of $30 million and $13 million, respectively, in our consolidated balance sheet for profits followed by losses in our long-term care insurance business. The current present value of expected losses was approximately $2,200 million and $500 million, respectively, as of December 31, 2016 and 2015. However, there may be future adjustments to this estimate reflecting any variety of new and adverse trends that could result in increases to future policy benefit reserves for profits followed by losses accrual, and such future increases could possibly be material to our results of operations and financial condition and liquidity.

*Policyholder Account Balances*

The following table sets forth our recorded liabilities for policyholder account balances as of December 31:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Annuity contracts | $ 13,566 | $ 14,376 |
| GICs, funding agreements and FABNs | 560 | 410 |
| Structured settlements without life contingencies | 1,576 | 1,694 |
| Supplementary contracts without life contingencies | 719 | 762 |

| | | |
|---|---|---|
| Other | 16 | 16 |
| Total investment contracts | 16,437 | 17,258 |
| Universal life insurance contracts | 9,225 | 8,951 |
| Total policyholder account balances | $ 25,662 | $ 26,209 |

In the fourth quarter of 2016, as part of our annual review of assumptions, we increased our liability for policyholder account balances by $202 million for our universal and term universal life insurance products,

260

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

reflecting updated assumptions primarily for mortality experience in older age populations. In the fourth quarter of 2015, as part of our annual review of assumptions, we increased our liability for policyholder account balances by $175 million for our universal and term universal life insurance products, reflecting updated assumptions for persistency, long-term interest rates, mortality and other refinements.

Certain of our U.S. life insurance companies are members of the Federal Home Loan Bank (the FHLB ) system in their respective regions. As of December 31, 2016 and 2015, we held $36 million and $30 million, respectively, of FHLB common stock related to those memberships which was included in equity securities. We have outstanding funding agreements with an FHLB and also have a letter of credit which has not been drawn upon. The FHLBs have been granted a lien on certain of our invested assets to collateralize our obligations; however, we maintain the ability to substitute these pledged assets for other qualified collateral, and may use, commingle, encumber or dispose of any portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. Upon any event of default by us, the FHLB s recovery on the collateral is limited to the amount of our funding agreement liabilities to the FHLB. The amount of funding agreements outstanding with the FHLB was $254 million and $105 million, respectively, as of December 31, 2016 and 2015 which was included in policyholder account balances. We have one letter of credit of $28 million and three letters of credit of $583 million related to the FHLB as of December 31, 2016 and 2015, respectively. These funding agreements and letters of credit were collateralized by fixed maturity securities with a fair value of $356 million and $742 million, respectively, as of December 31, 2016 and 2015.

*Certain Non-traditional Long-Duration Contracts*

The following table sets forth information about our variable annuity products with death and living benefit guarantees as of December 31:

| **(Dollar amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Account values with death benefit guarantees (net of reinsurance): | | |
| Standard death benefits (return of net deposits) account value | $ 2,364 | $ 2,512 |
| Net amount at risk | $ 4 | $ 5 |
| Average attained age of contractholders | 73 | 73 |
| Enhanced death benefits (ratchet, rollup) account value | $ 2,611 | $ 2,866 |
| Net amount at risk | $ 157 | $ 188 |
| Average attained age of contractholders | 74 | 73 |
| Account values with living benefit guarantees: | | |
| GMWBs | $ 2,781 | $ 3,111 |
| Guaranteed annuitization benefits | $ 1,177 | $ 1,181 |

Variable annuity contracts may contain more than one death or living benefit; therefore, the amounts listed above are not mutually exclusive. Substantially all of our variable annuity contracts have some form of GMDB.

As of December 31, 2016 and 2015, our total liability associated with variable annuity contracts with minimum guarantees was approximately $5,737 million and $6,170 million, respectively. The liability, net of reinsurance, for our variable annuity contracts with GMDB and guaranteed annuitization benefits was $90 million and $72 million as of December 31, 2016 and 2015, respectively.

The contracts underlying the lifetime benefits such as GMWB and guaranteed annuitization benefits are considered in the money if the contractholder s benefit base, or the protected value, is greater than the account

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

value. As of December 31, 2016 and 2015, our exposure related to GMWB and guaranteed annuitization benefit contracts that were considered in the money was $739 million and $745 million, respectively. For GMWBs and guaranteed annuitization benefits, the only way the contractholder can monetize the excess of the benefit base over the account value of the contract is through lifetime withdrawals or lifetime income payments after annuitization.

Account balances of variable annuity contracts with death or living benefit guarantees were invested in separate account investment options as follows as of December 31:

| (Amounts in millions) | 2016 | 2015 |
|---|---|---|
| Balanced funds | $ 3,046 | $ 3,304 |
| Equity funds | 1,271 | 1,387 |
| Bond funds | 550 | 576 |
| Money market funds | 87 | 85 |
| Total | $ 4,954 | $ 5,352 |

**(10) Liability for Policy and Contract Claims**

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

| (Amounts in millions) | 2016 | 2015 |
|---|---|---|
| Liability for policy and contract claims for insurance lines other than short-duration contracts: | | |
| Long-term care insurance | $ 8,034 | $ 6,749 |
| Life insurance | 226 | 202 |
| Fixed annuities | 16 | 18 |
| Runoff | 15 | 18 |
| Total | 8,291 | 6,987 |
| Liability for policy and contract claims, net of reinsurance, related to short-duration contracts: | | |
| U.S. Mortgage Insurance segment | 633 | 844 |
| Australia Mortgage Insurance segment | 211 | 165 |
| Canada Mortgage Insurance segment | 112 | 87 |
| Other mortgage insurance businesses | 7 | 7 |
| Total | 963 | 1,103 |

| | | |
|---|---|---|
| Reinsurance recoverable on unpaid claims related to short-duration contracts: | | |
| U.S. Mortgage Insurance segment | 2 | 5 |
| Total | 2 | 5 |
| Total liability for policy and contract claims | $ 9,256 | $ 8,095 |

The liability for policy and contract claims represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant, and result in increases in reserves by an amount that could be material to our results of operations and financial condition and liquidity.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Long-term care insurance*

The following table sets forth changes in the liability for policy and contract claims for our long-term care insurance business for the dates indicated:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Beginning balance as of January 1 | $ 6,749 | $ 6,216 | $ 4,999 |
| Less reinsurance recoverables | (2,055) | (1,926) | (1,707) |
| Net balance as of January 1 | 4,694 | 4,290 | 3,292 |
| Incurred related to insured events of: | | | |
| Current year | 2,066 | 1,655 | 1,474 |
| Prior years | 377 | 39 | 726 |
| Total incurred | 2,443 | 1,694 | 2,200 |
| Paid related to insured events of: | | | |
| Current year | (166) | (151) | (134) |
| Prior years | (1,506) | (1,371) | (1,263) |
| Total paid | (1,672) | (1,522) | (1,397) |
| Interest on liability for policy and contract claims | 259 | 232 | 195 |
| Net balance as of December 31 | 5,724 | 4,694 | 4,290 |
| Add reinsurance recoverables | 2,310 | 2,055 | 1,926 |
| Ending balance as of December 31 | $ 8,034 | $ 6,749 | $ 6,216 |

In 2016, the liability for policy and contract claims increased $1,285 million in our long-term care insurance business largely from the completion of our annual review of assumptions in the third quarter of 2016 which increased reserves by $460 million and increased reinsurance recoverables by $25 million. The increase was also attributable to aging and growth of the in-force block and higher severity on new claims in the current year. Based on our annual review of our long-term care insurance claim reserves, which included an additional year of claims experience since our last annual review in the third quarter of 2015, we updated several assumptions and methodologies primarily impacting claim termination rates, benefit utilization rates and incurred but not reported reserves. The primary impact of assumption changes was from an overall lowering of claim termination rate assumptions for longer duration claims, particularly for reimbursement claims. We also updated our claim termination rate assumptions to reflect differences between product types, separating our indemnity and reimbursement blocks that were previously combined, and modestly refined our utilization rate assumptions and methodologies as well as refined our methodology primarily related to the calculation of incurred but not reported reserves to better reflect the aging of the in-force blocks. In addition, certain of our third-party reinsurance counterparties updated their assumptions and methodologies, which increased our long-term care insurance claim reserves by $222 million with an offsetting increase in reinsurance recoverables of $222 million in the fourth quarter of 2016.

In 2016, the incurred amount of $377 million related to insured events of prior years increased largely as a result of the completion of our annual review of our long-term care insurance claim reserves, as described above, which resulted in recording higher reserves of $305 million, net of reinsurance recoverables of $221 million.

In 2015, the incurred amount of $39 million related to insured events of prior years increased primarily from lower claim termination rates, partially offset by $25 million of net favorable corrections and adjustments in 2015.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

In 2014, the incurred amount of $726 million related to insured events of prior years increased largely as a result of the completion of a comprehensive review of our long-term care insurance claim reserves conducted during the third quarter of 2014 which resulted in recording higher reserves of $604 million and an increase in reinsurance recoverables of $73 million. 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 reserves assumptions during the third quarter of each year. As a result of this review, we made changes to our assumptions and methodologies relating to our long-term care insurance claim reserves primarily impacting claim termination rates, most significantly in later-duration claims, and benefit utilization rates, reflecting that claims are not terminating as quickly and claimants are utilizing more of their available benefits in aggregate than had previously been assumed in our reserve calculations. In conducting the review, we increased the population of claims reviewed, utilizing more of our recent data. The remaining increase was primarily attributable to aging and growth of the in-force block.

*U.S. Mortgage Insurance segment*

The following table sets forth information about incurred claims, net of reinsurance, as well as cumulative number of reported delinquencies and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts for our U.S. Mortgage Insurance segment as of December 31, 2016. The information about the incurred claims development for the years ended December 31, 2007 to 2015 and the historical reported delinquencies as of December 31, 2015 and prior are presented as supplementary information.

| **(Dollar amounts in millions)** | **Incurred claims and allocated claim adjustment expenses, net of reinsurance For the years ended December 31,** | | | | | | | | | | **Total of Incurred-But-Not-Reported liabilities including expected development on reported claims as of December 31, 2016** | **Number of reported delinquencies** [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** [1] | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | | |
| | **Unaudited** | | | | | | | | | | | |
| 2007 | $ 387 | $ 656 | $ 608 | $ 596 | $ 631 | $ 630 | $ 629 | $ 637 | $ 639 | $ 640 | $ | 57,431 |
| 2008 | | 943 | 1,041 | 1,211 | 1,339 | 1,353 | 1,347 | 1,376 | 1,385 | 1,391 | 1 | 133,121 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2009 | 1,341 | 1,697 | 1,762 | 1,755 | 1,752 | 1,782 | 1,792 | 1,799 | 1 | 151,274 |
| 2010 | | 977 | 1,157 | 1,139 | 1,146 | 1,165 | 1,173 | 1,173 | 1 | 89,875 |
| 2011 | | | 910 | 931 | 913 | 929 | 938 | 939 | 1 | 68,614 |
| 2012 | | | | 718 | 675 | 671 | 673 | 671 | | 47,696 |
| 2013 | | | | | 475 | 407 | 392 | 387 | | 33,349 |
| 2014 | | | | | | 328 | 288 | 269 | | 25,281 |
| 2015 | | | | | | | 235 | 208 | 1 | 19,603 |
| 2016 | | | | | | | | 198 | 19 | 13,970 |
| Total incurred | | | | | | | | $ 7,675 | | |

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.

(2) Represents reported and outstanding delinquencies less actual cures as of December 31 for each respective accident year.

264

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth paid claims development, net of reinsurance, for our U.S. mortgage insurance segment for the year ended December 31, 2016. The information about paid claims development for the years ended December 31, 2007 to 2015, is presented as supplementary information.

| **(Amounts in millions)** | **Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** [1] | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | **Unaudited** | | | | | | | | | |
| 2007 | $ 25 | $ 355 | $ 531 | $ 562 | $ 577 | $ 591 | $ 603 | $ 614 | $ 625 | $ 630 |
| 2008 | | 66 | 572 | 917 | 1,046 | 1,145 | 1,217 | 1,271 | 1,322 | 1,353 |
| 2009 | | | 285 | 940 | 1,245 | 1,434 | 1,556 | 1,638 | 1,709 | 1,753 |
| 2010 | | | | 140 | 567 | 844 | 973 | 1,049 | 1,109 | 1,139 |
| 2011 | | | | | 65 | 497 | 722 | 816 | 874 | 906 |
| 2012 | | | | | | 92 | 391 | 532 | 602 | 634 |
| 2013 | | | | | | | 44 | 202 | 297 | 340 |
| 2014 | | | | | | | | 22 | 127 | 195 |
| 2015 | | | | | | | | | 12 | 85 |
| 2016 | | | | | | | | | | 10 |
| Total paid | | | | | | | | | | $ 7,045 |
| Total incurred | | | | | | | | | | $ 7,675 |
| Total paid | | | | | | | | | | 7,045 |
| All outstanding liabilities before 2007, net of reinsurance | | | | | | | | | | 3 |
| Liability for policy and contract claims, net of reinsurance | | | | | | | | | | $ 633 |

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.

The following table sets forth our average payout of incurred claims by age for our U.S. Mortgage Insurance segment as of December 31, 2016:

| | Average annual percentage payout of incurred claims, net of reinsurance, by age | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Years** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| Percentage of payout | 8.7% | 40.6% | 23.5% | 9.6% | 5.6% | 4.4% | 3.1% | 2.5% | 2.1% | 0.8% |

265

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Canada Mortgage Insurance segment*

The following table sets forth information about incurred claims, as well as cumulative number of reported delinquencies and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts for our Canada Mortgage Insurance segment as of December 31, 2016. The information about the incurred claims development for the years ended December 31, 2007 to 2015 and the historical reported delinquencies as of December 31, 2015 and prior are presented as supplementary information.

| (Dollar amounts in millions) [1] | Incurred claims and allocated claim adjustment expenses For the years ended December 31, | | | | | | | | | | Total of Incurred-But-Not-Reported liabilities including expected development on reported claims as of December 31, 2016 [3] | Number of reported delinquencies [4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident year [2] | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | |
| | Unaudited | | | | | | | | | | | |
| 2007 | $ 76 | $ 79 | $ 84 | $ 86 | $ 86 | $ 86 | $ 86 | $ 86 | $ 86 | $ 86 | $ | 4,267 |
| 2008 | | 105 | 144 | 147 | 151 | 153 | 153 | 153 | 153 | 153 | | 6,138 |
| 2009 | | | 147 | 163 | 185 | 188 | 190 | 190 | 189 | 189 | | 6,702 |
| 2010 | | | | 131 | 145 | 162 | 163 | 163 | 162 | 162 | | 6,601 |
| 2011 | | | | | 128 | 144 | 146 | 146 | 145 | 145 | | 5,707 |
| 2012 | | | | | | 107 | 106 | 105 | 105 | 104 | | 5,316 |
| 2013 | | | | | | | 98 | 95 | 94 | 94 | | 4,949 |
| 2014 | | | | | | | | 88 | 84 | 82 | | 4,948 |
| 2015 | | | | | | | | | 98 | 88 | | 4,626 |
| 2016 | | | | | | | | | | 116 | 40 | 5,133 |
| Total incurred | | | | | | | | | | $ 1,219 | | |

(1) Amounts translated into U.S. dollars at the foreign exchange rates as of December 31, 2016.
(2) Represents the year in which first monthly mortgage payments have been missed by the borrower.
(3) Incurred-but-not-reported liabilities exist only relative to the current year as lenders are required to report losses after three consecutive monthly mortgage payments have been missed by the borrower.
(4) Represents reported delinquencies as of December 31 for each respective accident year.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth paid claims development, for our Canada Mortgage Insurance segment for the year ended December 31, 2016. The information about paid claims development for the years ended December 31, 2007 to 2015, is presented as supplementary information.

| **(Amounts in millions)** (1) | **Cumulative paid claims and allocated claim adjustment expenses** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** (2) | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | **Unaudited** | | | | | | | | | |
| 2007 | $ 15 | $ 57 | $ 79 | $ 85 | $ 86 | $ 86 | $ 86 | $ 86 | $ 86 | $ 86 |
| 2008 | | 7 | 103 | 144 | 154 | 155 | 158 | 158 | 158 | 158 |
| 2009 | | | 23 | 123 | 179 | 187 | 189 | 189 | 188 | 188 |
| 2010 | | | | 27 | 118 | 159 | 163 | 162 | 161 | 161 |
| 2011 | | | | | 36 | 129 | 145 | 145 | 145 | 145 |
| 2012 | | | | | | 23 | 95 | 103 | 104 | 104 |
| 2013 | | | | | | | 24 | 85 | 92 | 94 |
| 2014 | | | | | | | | 16 | 70 | 80 |
| 2015 | | | | | | | | | 18 | 71 |
| 2016 | | | | | | | | | | 16 |
| Total paid | | | | | | | | | | $ 1,103 |
| Total incurred | | | | | | | | | | $ 1,219 |
| Total paid | | | | | | | | | | 1,103 |
| Borrower recovery accrual as of December 31, 2016 (3) | | | | | | | | | | (4) |
| All outstanding liabilities before 2007 | | | | | | | | | | |
| Liability for policy and contract claims | | | | | | | | | | $ 112 |

(1) Amounts translated into U.S. dollars at the foreign exchange rates as of December 31, 2016.

(2) Represents the year in which first monthly mortgage payments have been missed by the borrower.

(3) Represents the portion of the borrower recovery accrual that corresponds to loss reserves and is recognized as a reduction to losses incurred that we anticipate to receive in the future once the claims have been settled.

The following table sets forth our average payout of incurred claims by age for our Canada Mortgage Insurance segment as of December 31, 2016:

| | Average annual percentage payout of incurred claims, by age | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Years** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |
| Percentage of payout | 17.8% | 60.5% | 18.1% | 3.4% | 0.4% | 0.3% | (0.2)% | 0.1% | % | % |

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Australia Mortgage Insurance segment*

The following table sets forth information about incurred claims, as well as cumulative number of reported delinquencies and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts for our Australia Mortgage Insurance segment as of December 31, 2016. The information about the incurred claims development for the years ended December 31, 2007 to 2015 and the historical reported delinquencies as of December 31, 2015 and prior are presented as supplementary information.

| (Dollar amounts in millions) [1] | Incurred claims and allocated claim adjustment expenses For the years ended December 31, | | | | | | | | | | Total of Incurred-But-Not-Reported liabilities including expected development on reported claims as of December 31, 2016 | Number of reported delinquencies [3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Accident year [2] | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | |
| | Unaudited | | | | | | | | | | | |
| 2007 | $ 62 | $ 104 | $ 100 | $ 104 | $ 105 | $ 107 | $ 108 | $ 108 | $ 108 | $ 108 | $ | 6,935 |
| 2008 | | 76 | 125 | 118 | 119 | 134 | 138 | 140 | 139 | 139 | | 9,254 |
| 2009 | | | 100 | 93 | 85 | 105 | 109 | 111 | 114 | 115 | | 8,921 |
| 2010 | | | | 120 | 130 | 156 | 159 | 161 | 162 | 162 | | 8,717 |
| 2011 | | | | | 119 | 145 | 137 | 134 | 134 | 135 | | 9,341 |
| 2012 | | | | | | 100 | 112 | 97 | 95 | 94 | | 7,613 |
| 2013 | | | | | | | 82 | 84 | 70 | 65 | | 7,097 |
| 2014 | | | | | | | | 72 | 88 | 73 | 2 | 7,468 |
| 2015 | | | | | | | | | 76 | 109 | 11 | 7,587 |
| 2016 | | | | | | | | | | 95 | 37 | 4,220 |
| Total incurred | | | | | | | | | | $ 1,095 | | |

(1) Amounts translated into U.S. dollars at the foreign exchange rates as of December 31, 2016.

(2) The accident year is estimated by allowing an additional five months for development from the time the first monthly mortgage payments have been missed by the borrower.

(3) Represents reported and outstanding delinquencies less actual cures as of December 31 for each respective accident year.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table sets forth paid claims development, for our Australia Mortgage Insurance segment for the year ended December 31, 2016. The information about paid claims development for the years ended December 31, 2007 to December 31, 2015, is presented as supplementary information:

| **(Amounts in millions)** (1) | **Cumulative paid claims and allocated claim adjustment expenses** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** (2) | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | **Unaudited** | | | | | | | | | |
| 2007 | $ 3 | $ 34 | $ 80 | $ 99 | $ 103 | $ 106 | $ 107 | $ 108 | $ 108 | $ 108 |
| 2008 | | 5 | 48 | 92 | 107 | 129 | 135 | 137 | 138 | 139 |
| 2009 | | | 8 | 27 | 51 | 93 | 106 | 110 | 113 | 115 |
| 2010 | | | | 40 | 58 | 127 | 149 | 156 | 159 | 161 |
| 2011 | | | | | 20 | 75 | 115 | 127 | 130 | 133 |
| 2012 | | | | | | 20 | 64 | 81 | 87 | 91 |
| 2013 | | | | | | | 11 | 33 | 50 | 57 |
| 2014 | | | | | | | | 5 | 28 | 47 |
| 2015 | | | | | | | | | 4 | 30 |
| 2016 | | | | | | | | | | 4 |
| Total paid | | | | | | | | | | $ 885 |
| Total incurred | | | | | | | | | | $ 1,095 |
| Total paid | | | | | | | | | | 885 |
| All outstanding liabilities before 2007 | | | | | | | | | | 1 |
| Liability for policy and contract claims | | | | | | | | | | $ 211 |

(1) Amounts translated into U.S. dollars at the foreign exchange rates as of December 31, 2016.

(2) The accident year is estimated by allowing an additional five months for development from the time the first monthly mortgage payments have been missed by the borrower.

The following table sets forth our average payout of incurred claims by age for our Australia Mortgage Insurance segment as of December 31, 2016:

| | **Average annual percentage payout of incurred claims, by age** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Years** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Percentage of payout | 9.8% | 30.1% | 30.4% | 15.1% | 6.8% | 2.6% | 1.5% | 0.7% | 0.2% | % |

**(11) Employee Benefit Plans**

*(a) Pension and Retiree Health and Life Insurance Benefit Plans*

Essentially all of our employees are enrolled in a qualified defined contribution pension plan. The plan is 100% funded by Genworth. We make annual contributions to each employee s pension plan account based on the employee s age, service and eligible pay. Employees are vested in the plan after three years of service. As of December 31, 2016 and 2015, we recorded a liability related to these benefits of $10 million and $13 million, respectively.

In addition, certain employees also participate in non-qualified defined contribution plans and in qualified and non-qualified defined benefit pension plans. The plan assets, projected benefit obligation and accumulated

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

benefit obligation liabilities of these plans were not material to our consolidated financial statements individually or in the aggregate. As of December 31, 2016 and 2015, we recorded a liability related to these plans of $69 million and $78 million, respectively, which we accrued in other liabilities in the consolidated balance sheets. In 2016, we recognized a decrease of less than $1 million in OCI. In 2015, we recognized an increase of $30 million in OCI related to these plans.

In connection with the sale of our lifestyle protection insurance business in December 2015, we wrote off our pension benefit assets of $17 million and recognized all of the unrealized actuarial losses of $15 million related to the U.K. pension plan. In addition, related to the settlement of the U.K. pension plan, we purchased a group annuity contract. To fully fund this group annuity contract, we incurred $69 million of expense in 2015, of which $58 million was paid in 2015. These items resulted in $101 million of pension settlement costs related to the sale. The amounts associated with the group annuity contract were held in a third-party trust for the benefit of the participants until individual annuity contracts were transferred to the participants on September 1, 2016. As a result, the U.K. pension plan was completely settled in September 2016. See note 24 for additional details related to the sale of our lifestyle protection insurance business.

We provide retiree health benefits to domestic employees hired prior to January 1, 2005 who meet certain service requirements. Under this plan, retirees over 65 years of age receive a subsidy towards the purchase of a Medigap policy, and retirees under 65 years of age receive medical benefits similar to our employees medical benefits. In December 2009, we announced that eligibility for retiree medical benefits will be limited to associates who are within 10 years of retirement eligibility as of January 1, 2010. This resulted in a negative plan amendment which will be amortized over the average future service of the participants. We also provide retiree life and long-term care insurance benefits. The plans are funded as claims are incurred. As of December 31, 2016 and 2015, the accumulated postretirement benefit obligation associated with these benefits was $87 million and $78 million, respectively, which we accrued in other liabilities in the consolidated balance sheets. In 2016, we recognized a decrease of $8 million in OCI. In 2015, we recognized an increase of $13 million in OCI.

Our cost associated with our pension, retiree health and life insurance benefit plans was $18 million, $25 million and $21 million for the years ended December 31, 2016, 2015 and 2014, respectively.

*(b) Savings Plans*

Our domestic employees participate in qualified and non-qualified defined contribution savings plans that allow employees to contribute a portion of their pay to the plan on a pre-tax basis. We match these contributions, which vest immediately, up to 6% of the employee s pay. Beginning January 1, 2017, we will make matching contributions equal to 100% of the first 4% of pay deferred by an employee and 50% of the next 2% of pay deferred by an employee so that our matching contribution will not exceed 5% of an employee s pay. Employees hired on or after January 1, 2011 will not vest immediately in Genworth matching contributions but will fully vest in the matching contributions after two complete years of service. One option available to employees in the defined contribution savings plan is the ClearCourse® variable annuity option offered by certain of our life insurance subsidiaries. The amount of deposits recorded by our life insurance subsidiaries in 2016 and 2015 in relation to this plan option was $1 million for each year. Employees also have the option of purchasing a fund which invests primarily in Genworth stock as part of the defined contribution savings plan. Our cost associated with these plans was $13 million, $17 million and $16 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(c) Health and Welfare Benefits for Active Employees*

We provide health and welfare benefits to our employees, including health, life, disability, dental and long-term care insurance. Our long-term care insurance is provided through our group long-term care insurance products. The premiums recorded by this business related to these benefits were insignificant during 2016, 2015 and 2014.

**(12) Borrowings and Other Financings**

*(a) Short-Term Borrowings*

*Revolving Credit Facility*

On May 20, 2016, Genworth MI Canada Inc. ( Genworth Canada ), our majority-owned subsidiary, entered into a CAD$100 million senior unsecured revolving credit facility, which matures on May 20, 2019. Any borrowings under Genworth Canada s credit facility will bear interest at a rate per annum equal to, at the option of Genworth Canada, either a fixed rate or a variable rate pursuant to the terms of the credit agreement. Genworth Canada s credit facility includes customary representations, warranties, covenants, terms and conditions. As of December 31, 2016, there was no amount outstanding under Genworth Canada s credit facility.

In April 2016, Genworth Holdings terminated its $300 million multicurrency revolving credit facility, prior to its September 26, 2016 maturity date. There were no amounts outstanding under the credit facility at the time of termination.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(b) Long-Term Borrowings*

The following table sets forth total long-term borrowings as of December 31:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| **Genworth Holdings** | | |
| 8.625% Senior Notes, due 2016 | $ | $ 298 |
| 6.52% Senior Notes, due 2018 | 597 | 598 |
| 7.70% Senior Notes, due 2020 | 397 | 397 |
| 7.20% Senior Notes, due 2021 | 381 | 389 |
| 7.625% Senior Notes, due 2021 | 704 | 724 |
| 4.90% Senior Notes, due 2023 | 399 | 399 |
| 4.80% Senior Notes, due 2024 | 400 | 400 |
| 6.50% Senior Notes, due 2034 | 297 | 297 |
| 6.15% Fixed-to-Floating Rate Junior Subordinated Notes, due 2066 | 598 | 598 |
| Subtotal | 3,773 | 4,100 |
| Bond consent fees | (39) | |
| Deferred borrowing charges | (18) | (21) |
| Total Genworth Holdings | 3,716 | 4,079 |
| **Canada** | | |
| 5.68% Senior Notes, due 2020 | 205 | 199 |
| 4.24% Senior Notes, due 2024 | 119 | 116 |
| Subtotal | 324 | 315 |
| Deferred borrowing charges | (2) | (2) |
| Total Canada | 322 | 313 |
| **Australia** | | |
| Floating Rate Junior Notes, due 2021 | | 36 |
| Floating Rate Junior Notes, due 2025 | 145 | 146 |
| Subtotal | 145 | 182 |
| Deferred borrowing charges | (3) | (4) |

| | | |
|---|---|---|
| Total Australia | 142 | 178 |
| Total | $ 4,180 | $ 4,570 |

*Genworth Holdings*

*Long-Term Senior Notes*

As of December 31, 2016, Genworth Holdings had outstanding seven series of fixed rate senior notes with varying interest rates between 4.80% and 7.70% and maturity dates between 2018 and 2034. The senior notes are Genworth Holdings direct, unsecured obligations and rank equally in right of payment with all of its existing and future unsecured and unsubordinated obligations. 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

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

senior notes. We have the option to redeem all or a portion of each series of 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.

On March 18, 2016, Genworth Holdings received the requisite consents, pursuant to a solicitation of consents (the Consent Solicitation ), to amend the indenture dated as of June 15, 2004, by and between Genworth Holdings and The Bank of New York Mellon Trust Company, N.A. (the Trustee ), as successor to JP Morgan Chase Bank, N.A., as amended and supplemented from time to time (as so amended and supplemented, the Senior Notes Indenture ) and the indenture dated as of November 14, 2006, by and between Genworth Holdings and the Trustee, as amended and supplemented from time to time (as so amended and supplemented, the Subordinated Notes Indenture and together with the Senior Notes Indenture, the Indentures ).

On March 18, 2016, Genworth Holdings, Genworth Financial, as guarantor, and the Trustee entered into Supplemental Indenture No. 12 to the Senior Notes Indenture and the Third Supplemental Indenture to the Subordinated Notes Indenture (the Supplemental Indentures ) that amended the Senior Notes Indenture and the Subordinated Notes Indenture, respectively, to (i) exclude Genworth Life Insurance Company ( GLIC ) and Genworth Life Insurance Company of New York ( GLICNY ), which operate our long-term care insurance business, from the event of default provisions of the Indentures (such amendment also previously excluded Brookfield Life and Annuity Insurance Company Limited ( BLAIC ) until it merged into GLIC in October 2016) and (ii) clarify that one or more transactions disposing of any or all of the Genworth Holdings long-term care and other life insurance businesses and assets (a Life Sale ) would not constitute a disposition of all or substantially all of Genworth Holdings assets under the Indentures, provided that in order to rely on that clarification, the assets of our U.S. Mortgage Insurance segment would be contributed to Genworth Holdings and 80% of any Net Cash Proceeds, as defined in the Supplemental Indentures, to us from any Life Sale would be used to reduce outstanding indebtedness.

The Supplemental Indentures became operative on March 22, 2016 upon the payment of the applicable consent fees payable under the terms of the Consent Solicitation. We paid total fees related to the Consent Solicitation of approximately $61 million, including bond consent fees of $43 million, which were deferred, as well as broker, advisor and investment banking fees of $18 million, which were expensed, in the first quarter of 2016.

In January 2016, Genworth Holdings redeemed $298 million of its 8.625% senior notes due 2016 issued in December 2009 and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest.

During the first quarter of 2016, Genworth Holdings repurchased $28 million principal amount of its senior notes with 2021 maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

During the third quarter of 2015, Genworth Holdings repurchased $50 million aggregate principal amount of its senior notes for a pre-tax loss of $1 million and paid accrued and unpaid interest thereon.

Genworth Holdings repaid $485 million of its 5.75% senior notes due 2014 issued in June 2004 in June 2014 from cash on hand.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Long-Term Junior Subordinated Notes*

As of December 31, 2016, Genworth Holdings had outstanding floating rate junior notes having an aggregate principal amount of $598 million, with an annual interest rate equal to three-month London Interbank Offered Rate ( LIBOR ) plus 2.0025% payable quarterly, until the notes mature in November 2066 ( 2066 Notes ). Prior to November 2016, Genworth Holdings had outstanding fixed-to-floating rate junior notes with an annual interest rate equal to 6.15% payable semi-annually. Subject to certain conditions, Genworth Holdings has the right, on one or more occasions, to defer the payment of interest on the 2066 Notes during any period of up to 10 years without giving rise to an event of default and without permitting acceleration under the terms of the 2066 Notes. Genworth Holdings will not be required to settle deferred interest payments until it has deferred interest for five years or made a payment of current interest. In the event of our bankruptcy, holders will have a limited claim for deferred interest.

Genworth Holdings may redeem the 2066 Notes on November 15, 2036, the scheduled redemption date, but only to the extent that it has received net proceeds from the sale of certain qualifying capital securities. Genworth Holdings may redeem the 2066 Notes in whole or in part at their principal amount plus accrued and unpaid interest to the date of redemption.

The 2066 Notes will be subordinated to all existing and future senior, subordinated and junior subordinated debt of Genworth Holdings, except for any future debt that by its terms is not superior in right of payment, and will be effectively subordinated to all liabilities of our subsidiaries. Genworth Financial provides a full and unconditional guarantee to the trustee of the 2066 Notes and the holders of the 2066 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 2066 Notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the 2066 Notes indenture in respect of the 2066 Notes.

In connection with the issuance of the 2066 Notes, we entered into a Replacement Capital Covenant (the Replacement Capital Covenant ), whereby we agreed, for the benefit of holders of our 6.5% Senior Notes due 2034, that Genworth Holdings will not repay, redeem or repurchase all or any part of the 2066 Notes on or before November 15, 2046, unless such repayment, redemption or repurchase is made from the proceeds of the issuance of certain replacement capital securities and pursuant to the other terms and conditions set forth in the Replacement Capital Covenant.

*Canada*

As of December 31, 2016, Genworth Canada, our majority-owned subsidiary, had outstanding two series of fixed rate senior notes with interest rates of 5.68% and 4.24% and maturity dates of 2020 and 2024, respectively. The senior notes are redeemable at the option of Genworth Canada, in whole or in part, at any time.

In April 2014, Genworth Canada issued CAD$160 million aggregate principal amount of 4.24% senior notes (the 2024 Canada Notes ). The net proceeds of the offering of the 2024 Canada Notes were used to redeem, in full, the CAD$150 million outstanding principal on its existing 4.59% senior notes due 2015. 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.

274

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Australia*

As of December 31, 2016, Genworth Financial Mortgage Insurance Pty Limited, our majority-owned subsidiary, had outstanding one series of subordinated floating rate notes with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 3.50% and maturity date of 2025.

In June 2016, Genworth Financial Mortgage Insurance Pty Limited redeemed all of its outstanding AUD$50 million of subordinated floating rate notes with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 4.75% due 2021.

In July 2015, Genworth Financial Mortgage Insurance Pty Limited issued AUD$200 million of subordinated floating rate notes due 2025 with an interest rate of three-month Bank Bill Swap reference rate plus a margin of 3.50%. Genworth Financial Mortgage Insurance Pty Limited used the proceeds it received from this transaction to redeem AUD$90 million of its outstanding debt and for general corporate purposes and incurred a $2 million pre-tax early redemption payment.

*(c) Non-Recourse Funding Obligations*

The following table sets forth the non-recourse funding obligations (surplus notes) of our wholly-owned, special purpose consolidated captive insurance subsidiaries as of December 31:

| **(Amounts in millions)**<br>**Issuance** | **2016** | **2015** |
|---|---|---|
| River Lake Insurance Company [(a)], due 2033 | $ | $ 570 |
| River Lake Insurance Company [(b)], due 2033 | | 405 |
| River Lake Insurance Company II [(a)], due 2035 | | 192 |
| River Lake Insurance Company II [(b)], due 2035 | | 453 |
| Rivermont Life Insurance Company I [(a)], due 2050 | 315 | 315 |
| Subtotal | 315 | 1,935 |
| Deferred borrowing charges | (5) | (15) |
| Total | $ 310 | $ 1,920 |

(a) Accrual of interest based on one-month LIBOR that resets every 28 days plus a fixed margin.

(b)

Accrual of interest based on one-month LIBOR that resets on a specified date each month plus a contractual margin.

These surplus notes bear a floating rate of interest and have been deposited into a series of trusts that have issued money market or term securities. Both principal and interest payments on the money market and term securities are guaranteed by a third-party insurance company. The holders of the money market or term securities cannot require repayment from us or any of our subsidiaries, other than the River Lake and Rivermont Insurance Companies, as applicable, the direct issuers of the notes. We have provided a limited guarantee to Rivermont Life Insurance Company I ( Rivermont I ), where under adverse interest rate, mortality or lapse scenarios (or combination thereof), we may be required to provide additional funds to Rivermont I. GLAIC, our wholly-owned subsidiary, has agreed to indemnify the issuers and the third-party insurer for certain limited costs related to the issuance of these obligations.

Any payment of principal, including by redemption, or interest on the notes may only be made with the prior approval of the Director of Insurance of the State of South Carolina in accordance with the terms of its

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

licensing orders and in accordance with applicable law. The holders of the notes have no rights to accelerate payment of principal of the notes under any circumstances, including without limitation, for non-payment or breach of any covenant. Each issuer reserves the right to repay the notes that it has issued at any time, subject to prior regulatory approval.

During the three months ended March 31, 2016, in connection with a life block transaction, River Lake Insurance Company, our indirect wholly-owned subsidiary, redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake Insurance Company II ( River Lake II ), our indirect wholly-owned subsidiary, redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs.

During 2015 and 2014, River Lake Insurance Company repaid $30 million and $26 million, respectively, of its total outstanding floating rate subordinated notes due in 2033. During 2015 and 2014, River Lake II repaid $31 million and $16 million, respectively, of its total outstanding floating rate subordinated notes due in 2035.

The weighted-average interest rates on the non-recourse funding obligations as of December 31, 2016 and 2015 were 2.75% and 1.73%, respectively.

*(d) Liquidity*

Principal amounts under our long-term borrowings (including senior notes) and non-recourse funding obligations by maturity were as follows as of December 31, 2016:

| **(Amounts in millions)** | **Amount** |
|---|---|
| 2017 | $ |
| 2018 | 597 |
| 2019 | |
| 2020 | 602 |
| 2021 and thereafter [1] | 3,358 |
| Total | $ 4,557 |

[1] Repayment of $315 million of our non-recourse funding obligations requires regulatory approval.

Our liquidity requirements are principally met through cash flows from operations.

*(e) Repurchase agreements and securities lending activity*

*Repurchase agreements*

As of December 31, 2016 and 2015, the fair value of securities pledged under the repurchase program was $79 million and $231 million, respectively, and the repurchase obligation of $75 million and $229 million, respectively, was included in other liabilities in the consolidated balance sheet.

*Securities lending activity*

Under our securities lending program in the United States, the borrower is required to provide collateral, which can consist of cash or government securities, on a daily basis in amounts equal to or exceeding 102% of

276

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

the value of the loaned securities. Currently, we only accept cash collateral from borrowers under the program. Cash collateral received by us on securities lending transactions is reflected in other invested assets with an offsetting liability recognized in other liabilities for the obligation to return the collateral. Any cash collateral received is reinvested by our custodian based upon the investment guidelines provided within our agreement. In the United States, the reinvested cash collateral is primarily invested in a money market fund approved by the NAIC, U.S. and foreign government securities, U.S. government agency securities, asset-backed securities and corporate debt securities. As of December 31, 2016 and 2015, the fair value of securities loaned under our securities lending program in the United States was $517 million and $334 million, respectively. As of December 31, 2016 and 2015, the fair value of collateral held under our securities lending program in the United States was $534 million and $347 million, respectively, and the offsetting obligation to return collateral of $534 million and $347 million, respectively, was included in other liabilities in the consolidated balance sheets. We did not have any non-cash collateral provided by the borrowers in our securities lending program in the United States as of December 31, 2016 and 2015.

Under our securities lending program in Canada, the borrower is required to provide collateral consisting of government securities on a daily basis in amounts equal to or exceeding 105% of the fair value of the applicable securities loaned. Securities received from counterparties as collateral are not recorded on our consolidated balance sheet given that the risk and rewards of ownership is not transferred from the counterparties to us in the course of such transactions. Additionally, there was no cash collateral because it is not permitted as an acceptable form of collateral under the program. In Canada, the lending institution must be included on the approved Securities Lending Borrowers List with the Canadian regulator and the intermediary must be rated at least AA- by Standard & Poor s Financial Services LLC. As of December 31, 2016 and 2015, the fair value of securities loaned under our securities lending program in Canada was $350 million and $340 million, respectively.

*Risks associated with repurchase agreements and securities lending programs*

Our repurchase agreement and securities lending programs expose us to liquidity risk if we did not have enough cash or collateral readily available to return to the counterparty when required to do so under the agreements. We manage this risk by regularly monitoring our available sources of cash and collateral to ensure we can meet short-term liquidity demands under normal and stressed scenarios.

We are also exposed to credit risk in the event of default of our counterparties or changes in collateral values. This risk is significantly reduced because our programs require over collateralization and collateral exposures are trued up on a daily basis. We manage this risk by using multiple counterparties and ensuring that changes in required collateral are monitored and adjusted daily. We also monitor the creditworthiness, including credit ratings, of our counterparties on a regular basis.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Contractual maturity*

The following tables present the remaining contractual maturity of the agreements as of December 31:

| | 2016 | | | | |
|---|---|---|---|---|---|
| **(Amounts in millions)** | **Overnight and continuous** | **Up to 30 days** | **31 - 90 days** | **Greater than 90 days** | **Total** |
| Repurchase agreements: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ | $ | $ 16 | $ 59 | $ 75 |
| Securities lending: | | | | | |
| Fixed maturity securities: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | 224 | | | | 224 |
| Non-U.S. government | 34 | | | | 34 |
| U.S. corporate | 159 | | | | 159 |
| Non-U.S. corporate | 110 | | | | 110 |
| Subtotal, fixed maturity securities | 527 | | | | 527 |
| Equity securities | 7 | | | | 7 |
| Total securities lending | 534 | | | | 534 |
| Total repurchase agreements and securities lending | $ 534 | $ | $ 16 | $ 59 | $ 609 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| **(Amounts in millions)** | **Overnight and continuous** | **Up to 30 days** | **31 - 90 days** | **Greater than 90 days** | **Total** |
| Repurchase agreements: | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ | $ 58 | $ 25 | $ 146 | $ 229 |
| Securities lending: | | | | | |
| Fixed maturity securities: | | | | | |
| | 18 | | | | 18 |

| | | | | | |
|---|---|---|---|---|---|
| U.S. government, agencies and government-sponsored enterprises | | | | | |
| Non-U.S. government | 39 | | | | 39 |
| U.S. corporate | 95 | | | | 95 |
| Non-U.S. corporate | 190 | | | | 190 |
| Subtotal, fixed maturity securities | 342 | | | | 342 |
| Equity securities | 5 | | | | 5 |
| Total securities lending | 347 | | | | 347 |
| Total repurchase agreements and securities lending | $ 347 | $ 58 | $ 25 | $ 146 | $ 576 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

**(13) Income Taxes**

Income (loss) from continuing operations before income taxes included the following components for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Domestic | $ (283) | $ (468) | $ (2,022) |
| Foreign | 603 | 453 | 723 |
| Income (loss) from continuing operations before income taxes | $ 320 | $ (15) | $ (1,299) |

The total provision (benefit) for income taxes was as follows for the years ended December 31:

| (Amounts in millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current federal income taxes | $ 55 | $ 1 | $ (3) |
| Deferred federal income taxes | 115 | (199) | (305) |
| Total federal income taxes | 170 | (198) | (308) |
| Current state income taxes | 1 | | 4 |
| Deferred state income taxes | 2 | 4 | (4) |
| Total state income taxes | 3 | 4 | |
| Current foreign income taxes | 183 | 186 | 246 |
| Deferred foreign income taxes | 2 | (1) | (32) |
| Total foreign income taxes | 185 | 185 | 214 |
| Total provision (benefit) for income taxes | $ 358 | $ (9) | $ (94) |

Our current income tax payable was $36 million and $10 million as of December 31, 2016 and 2015, respectively.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The reconciliation of the federal statutory tax rate to the effective income tax rate was as follows for the years ended December 31:

| **(Amounts in millions)** | **2016** | | **2015** | | **2014** | |
|---|---|---|---|---|---|---|
| Pre-tax income (loss) | $ 320 | | $ (15) | | $ (1,299) | |
| | | | | | | |
| Statutory U.S. federal income tax rate | $ 112 | 35.0% | $ (5) | 35.0% | $ (455) | 35.0% |
| Increase (reduction) in rate resulting from: | | | | | | |
| State income tax, net of federal income tax effect | 3 | 1.0 | 2 | (18.0) | | |
| Benefit on tax favored investments | (4) | (1.3) | (14) | 93.3 | (19) | 1.4 |
| Effect of foreign operations | (5) | (1.6) | (20) | 129.2 | (66) | 5.1 |
| Net impact of repatriating foreign earnings | 9 | 2.8 | | | 205 | (15.8) |
| Interest on uncertain tax positions | | | | | (2) | 0.1 |
| Non-deductible expenses | 1 | 0.3 | (3) | 22.0 | 4 | (0.3) |
| Non-deductible goodwill | | | | | 245 | (18.8) |
| Valuation allowance | 233 | 72.8 | 25 | (165.0) | (6) | 0.5 |
| Stock-based compensation | 5 | 1.6 | 5 | (31.7) | 4 | (0.3) |
| Loss on sale of business | (1) | (0.3) | | | | |
| Other, net | 5 | 1.6 | 1 | (6.8) | (4) | 0.3 |
| | | | | | | |
| Effective rate | $ 358 | 111.9% | $ (9) | 58.0% | $ (94) | 7.2% |

For the year ended December 31, 2016, the increase in the effective tax rate was primarily related to a valuation allowance recorded on deferred tax assets related to foreign tax credits that we no longer expect to realize. The increase was also related to true ups to lower taxed foreign income. These increases were partially offset by a tax benefit attributable to the reversal of a deferred tax valuation allowance established on a specific capital loss and decreased tax benefits from lower taxed foreign income in 2016.

For the year ended December 31, 2015, the increase in the effective tax rate was primarily attributable to tax benefits on lower taxed foreign income, changes in uncertain tax positions and tax favored investments in relation to pre-tax results in 2015 as well as non-deductible goodwill impairments in 2014. These increases were partially offset by a valuation allowance established on a specific capital loss, tax expense related to our agreement to sell our European mortgage insurance business and stock-based compensation expense in 2015.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The components of the net deferred income tax liability were as follows as of December 31:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Assets: | | |
| Foreign tax credit carryforwards | $ 690 | $ 787 |
| Accrued commission and general expenses | 208 | 199 |
| State income taxes | 329 | 302 |
| Net operating loss carryforwards | 906 | 1,727 |
| Other | 58 | 51 |
| Gross deferred income tax assets | 2,191 | 3,066 |
| Valuation allowance | (601) | (353) |
| Total deferred income tax assets | 1,590 | 2,713 |
| Liabilities: | | |
| Investments | 2 | 29 |
| Net unrealized gains on investment securities | 644 | 639 |
| Net unrealized gains on derivatives | 18 | 218 |
| Insurance reserves | 58 | 751 |
| DAC | 748 | 863 |
| PVFP and other intangibles | 55 | 20 |
| Investment in foreign subsidiaries | 48 | 10 |
| Other | 70 | 52 |
| Total deferred income tax liabilities | 1,643 | 2,582 |
| Net deferred income tax asset (liability) | $ (53) | $ 131 |

The above valuation allowances of $601 million and $353 million as of December 31, 2016 and 2015, respectively, related to state deferred tax assets, foreign tax credits that we no longer expect to realize, foreign net operating losses, and a specific federal separate tax return net operating loss deferred tax asset. The state deferred tax assets related primarily to the future deductions associated with the Section 338 elections and non-insurance net operating loss ( NOL ) carryforwards. The increase in the valuation allowance related primarily to judgments regarding the future realization of certain deferred tax assets. In light of our latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in our long-term care insurance business as a result of our annual claim reserves review in the third quarter of 2016 and sustained low interest rates, we recorded a valuation allowance related to foreign tax credits that we no longer expect to realize. We also recorded a reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe due to taxable gains supporting the recognition of these deferred tax assets in 2016. Based on our analysis, we believe it is more likely than not that the results of future operations will generate sufficient taxable income to enable us to realize the deferred tax assets for which we have not established valuation allowances.

NOL carryforwards amounted to $2,627 million as of December 31, 2016, and, if unused, will expire beginning in 2021. Foreign tax credit carryforwards amounted to $690 million as of December 31, 2016, and, if unused will begin to expire in 2021.

We are in a three-year cumulative pre-tax loss position in our U.S. jurisdiction as of December 31, 2016. A cumulative loss position is considered significant negative evidence in assessing the realizability of our deferred tax assets. Our ability to realize our U.S. deferred tax asset of $2,191 million, which includes deferred tax assets

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

of $1,596 million related to net operating loss and foreign tax credit carryforwards, is primarily dependent upon generating sufficient taxable income in future years. Management has concluded that there is sufficient positive evidence to overcome this negative evidence for the net operating losses and the majority of foreign tax credit carryforwards. This positive evidence includes: (i) our three-year cumulative pre-tax loss position includes significant charges that are not expected to recur in the future, including goodwill impairments, charges from our claim and assumption reviews in our long-term care and life insurance businesses, respectively, in our U.S. Life Insurance segment in 2016, a loss on the sale of our lifestyle protection insurance business in 2015 and a loss recorded in 2015 related to the sale of our mortgage insurance business in Europe; and (ii) our profitable U.S. operating forecasts, result in utilization of most of the net deferred tax assets within the U.S. federal carryforward periods based on our current projections, including in-force premium rate actions already obtained in our long-term care insurance business and the lack of future sales and related expenses for our traditional life insurance and fixed annuity products given our suspension of new sales included in these forecasts and the significant taxable temporary differences that exist; (iii) overall domestic losses that we have incurred are allowed to be reclassified as foreign source income to the extent of 50% of domestic source income produced in subsequent years, and such resulting foreign source income is sufficient to cover the foreign tax credits being carried forward; and, (iv) tax planning strategies that assume that we will not elect to take foreign tax credits and instead deduct foreign taxes in some prior tax years. After consideration of all available evidence, we have recorded a valuation allowance of $258 million. If our actual results do not validate the current projections of pre-tax income, we may be required to record an additional valuation allowance that could have a material impact on our consolidated financial statements in future periods.

As a consequence of our separation from GE, and our joint election with GE to treat that separation as an asset sale under Section 338 of the Internal Revenue Code, we became entitled to additional tax deductions in post IPO periods. As of December 31, 2016 and 2015, we have recorded in our consolidated balance sheets our estimates of the remaining deferred tax benefits associated with these deductions of $485 million and $599 million, respectively. We are obligated, pursuant to our Tax Matters Agreement with GE, to make fixed payments to GE, over the next seven years, on an after-tax basis and subject to a cumulative maximum of $640 million, which is 80% of the projected tax savings associated with the Section 338 deductions. We recorded net interest expense of $10 million, $11 million and $13 million for the years ended December 31, 2016, 2015 and 2014, respectively, reflecting accretion of our liability at the Tax Matters Agreement rate of 5.72%. As of December 31, 2016 and 2015, we have recorded the estimated present value of our remaining obligation to GE of $173 million and $188 million, respectively, as a liability in our consolidated balance sheets. Both our IPO-related deferred tax assets and our obligation to GE are estimates that are subject to change.

In 2014, we increased our deferred tax liability by $6 million with an offset to additional paid-in capital related to an unsupported tax balance that arose prior to our IPO.

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Balance as of January 1 | $ 28 | $ 49 | $ 41 |
| Tax positions related to the current period: | | | |
| Gross additions | 6 | 5 | 7 |
| Gross reductions | | | (3) |
| Tax positions related to the prior years: | | | |
| Gross additions | | | 17 |
| Gross reductions | | (26) | (13) |
| Balance as of December 31 | $ 34 | $ 28 | $ 49 |

282

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The total amount of unrecognized tax benefits was $34 million as of December 31, 2016, of which $32 million, if recognized, would affect the effective rate on continuing operations. These unrecognized tax benefits included the impact of foreign currency translation from our international operations.

We believe it is reasonably possible that in 2017 due to the potential resolution of certain potential settlements and other administrative and statutory proceedings and limitations, up to approximately $14 million of unrecognized tax benefits will be recognized. These tax benefits are mainly related to certain insurance and non-insurance deductions and other tax benefits in the United States and in foreign jurisdictions.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of income tax expense. We recorded less than $1 million, $1 million and $3 million, respectively, of benefits related to interest and penalties during 2016, 2015 and 2014.

Our companies have elected to file a single U.S. consolidated income tax return (the life/non-life consolidated return ). All companies domesticated in the United States and our former Bermuda and Guernsey subsidiaries, which elected to be taxed as U.S. domestic companies, are included in the life/non-life consolidated return as allowed by the tax law and regulations. We have a tax sharing agreement in place and all intercompany balances related to this agreement are settled at least annually. With possible exceptions, we are no longer subject to U.S. Federal tax examinations for years through 2012. Any exposure with respect to these pre-2013 years has been sufficiently recorded in the financial statements. Potential state and local examinations for those years are generally restricted to results that are based on closed U.S. Federal examinations. For our life and non-life consolidated company federal income tax returns, all tax years prior to 2011 have been examined or reviewed. We are also responsible for any tax liability of any separate U.S. Federal and state pre-disposition period returns of former life insurance and non-insurance subsidiaries sold in the years 2011 to 2013. With respect to our foreign affiliates, there are various examinations ongoing by foreign jurisdictions with any material exposure liability related thereto being duly recorded in the financial statements.

**(14) Supplemental Cash Flow Information**

Net cash paid for taxes was $203 million, $153 million and $645 million and cash paid for interest was $381 million, $424 million and $437 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**(15) Stock-Based Compensation**

Prior to May 2012, we granted share-based awards to employees and directors, including stock options, SARs, RSUs and deferred stock units ( DSUs ) under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (the 2004 Omnibus Incentive Plan ). In May 2012, the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (the 2012 Omnibus Incentive Plan, together with the 2004 Omnibus Incentive Plan, the Omnibus Incentive Plans ) was approved by stockholders. Under the 2012 Omnibus Incentive Plan, we are authorized to grant 16 million equity awards, plus a number of additional shares not to exceed 25 million underlying awards outstanding under the prior Plan. From and after May 2012, no further awards have been or will be granted under the 2004 Omnibus Incentive Plan and the 2004

Omnibus Incentive Plan will remain in effect only as long as awards granted thereunder remain outstanding.

We recorded stock-based compensation expense under the Omnibus Incentive Plans of $23 million, $17 million and $20 million, respectively, for the years ended December 31, 2016, 2015 and 2014. For awards

283

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

issued prior to January 1, 2006, stock-based compensation expense was recognized on a graded vesting attribution method over the awards respective vesting schedule. For awards issued after January 1, 2006, stock-based compensation expense was recognized evenly on a straight-line attribution method over the awards respective vesting period.

For purposes of determining the fair value of stock-based payment awards on the date of grant, we typically use the Black-Scholes Model. The Black-Scholes Model requires the input of certain assumptions that involve judgment. Management periodically evaluates the assumptions and methodologies used to calculate fair value of share-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies.

There were no SARs or stock options granted during 2016. The following table contains the stock option and SAR weighted-average grant-date fair value information and related valuation assumptions for the years ended December 31:

| | 2015 Black-Scholes Model | 2014 Black-Scholes Model |
|---|---|---|
| Awards granted (in thousands) | 1,378 | 2,960 |
| Maximum share value at exercise of SARs | $ 75.00 | $ 75.00 |
| Fair value per options and SARs | $ 3.43 | $ 3.05 |
| Valuation assumptions: | | |
| Expected term (years) | 6.0 | 6.0 |
| Expected volatility | 66.0% | 100.2% |
| Expected dividend yield | % | 0.5% |
| Risk-free interest rate | 1.9% | 1.9% |

During 2015 and 2014, we granted SARs with exercise prices ranging from $4.96 to $7.99 and $14.30 to $17.89, respectively. These SARs have a feature that places a cap on the amount of gain that can be recognized upon exercise of the SARs. Specifically, if the price of our Class A Common Stock reaches $75.00, any vested portion of the SAR will be automatically exercised. The SAR grant price equaled the closing market prices of our Class A Common Stock on the date of the grant and the awards have an exercise term of 10 years. The SARs granted in 2015 have an average vesting period of three years, while the SARs granted in 2014 have an average vesting period of four years. Vesting occurs in annual increments commencing on the first anniversary of the grant date. Additionally, during 2016 and 2015, we issued RSUs with average restriction periods of three years and four years, respectively, with a fair value of $2.04 and $4.96 to $7.99, respectively, which were measured at the market price of a share of our Class A Common Stock on the grant date. In 2016 and 2015, we granted performance stock units ( PSUs ) with a fair value of $2.81 and $7.75, respectively. The PSUs were granted at market price as of the grant date. PSUs may be earned over a three-year period based upon the achievement of certain performance goals. The performance goals for the PSUs granted in 2016 are based upon four performance metrics, each payable independently. The four performance metrics are; the average annual adjusted operating income, adjusted operating return on equity for our mortgage insurance businesses for the years ended December 31, 2016, 2017 and 2018, expense management in our U.S. Life Insurance segment for the year ended 2018 and cumulative in-force rate actions in our long-term care insurance business for the three-year period ended December 31, 2018. Each performance metric is weighted independently and payable in equal amounts of 25%. The PSUs will be payable in Genworth Class A Common Stock in March 2019 provided we have attained or exceeded threshold levels related to the performance goals. If the respective levels have not been achieved by December 31, 2018, no payout will occur and all the related expenses recorded to date will be reversed.

284

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The performance goals for the PSUs granted in 2015 are based upon the average daily closing price of our Class A Common Stock during the fourth quarter of 2017 and the two point average of our book value per share, excluding accumulated other comprehensive income (loss), during the close of the third and fourth quarters of 2017. The PSUs will be payable in Genworth Class A Common Stock in March 2018 provided we have attained or exceeded threshold levels related to the performance goals. Our book value per share is divided into the average daily closing price of our Class A Common Stock to calculate the book value multiplier, which determines the potential number of shares to be paid out. If the respective levels have not been achieved by December 31, 2017, no payout will occur and all the related expenses recorded to date will be reversed.

The performance goals for the PSUs granted in 2014 were based upon the achievement of goals related to our 2016 annual operating return on equity and book value per share, excluding accumulated other comprehensive income (loss). We did not achieve the respective threshold levels for the PSUs granted in 2014 by the December 31, 2016 deadline; therefore, all the related expenses recorded were reversed.

In 2016 and 2015, we granted $18 million and $10 million, respectively, in cash retention awards with a fair value of $1.00. During 2016, approximately $3 million awards were forfeited due to employees leaving Genworth prior to the vesting date. The remaining cash awards vest over two years, with half of the payout occurring per year, beginning on the first anniversary of the grant date. The remaining performance-based cash awards vest over three years, one third each year, beginning on the first anniversary of the grant date.

No stock options were granted in 2016, 2015 or 2014.

The following table summarizes stock option activity as of December 31, 2016 and 2015:

| **(Shares in thousands)** | **Shares subject to option** | **Weighted-average exercise price** |
|---|---|---|
| Balance as of January 1, 2015 | 2,504 | $ 12.86 |
| Granted | | $ |
| Exercised | (47) | $ 4.39 |
| Expired and forfeited | (317) | $ 17.62 |
| Balance as of January 1, 2016 | 2,140 | $ 12.34 |
| Granted | | $ |
| Exercised | (46) | $ 2.46 |
| Expired and forfeited | (280) | $ 17.24 |
| Balance as of December 31, 2016 | 1,814 | $ 11.83 |

| | | | |
|---|---|---|---|
| Exercisable as of December 31, 2016 | 1,814 | $ | 11.83 |

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

The following table summarizes information about stock options outstanding as of December 31, 2016:

| | Outstanding and Exercisable | | |
|---|---|---|---|
| Exercise price range | Shares in thousands | Average life [1] | Average exercise price |
| $2.00 - $2.46[2] | 316 | 2.06 | $ 2.43 |
| $7.80 | 314 | 1.19 | $ 7.80 |
| $9.10 - $14.18 | 1,043 | 2.88 | $ 14.14 |
| $14.92 - $31.71 | 141 | 1.13 | $ 24.77 |
| | 1,814 | | $ 11.83 |

(1) Average contractual life remaining in years.

(2) These shares have an aggregate intrinsic value of less than $1 million each for total options outstanding and exercisable.

The following tables summarize the status of our other equity-based awards as of December 31, 2016 and 2015:

| | RSUs | | PSUs | | DSUs | | SARs | |
|---|---|---|---|---|---|---|---|---|
| (Awards in thousands) | Number of awards | Weighted-average grant date fair value | Number of awards | Weighted-average fair value | Number of awards | Weighted-average fair value | Number of awards | Weighted-average grant date fair value |
| Balance as of January 1, 2015 | 2,913 | $ 12.09 | 304 | $ 15.32 | 634 | $ 9.96 | 12,067 | $ 3.62 |
| Granted | 2,087 | $ 7.50 | 535 | $ 7.75 | 256 | $ 3.90 | 1,378 | $ 3.43 |
| Exercised | (1,390) | $ 11.60 | | $ | (10) | $ 2.14 | (59) | $ 1.28 |
| Terminated | (355) | $ 10.10 | (129) | $ 9.72 | | $ | (1,238) | $ 4.05 |
| Balance as of January 1, 2016 | 3,255 | $ 9.22 | 710 | $ 10.63 | 880 | $ 8.18 | 12,148 | $ 3.56 |
| Granted | 1,230 | $ 2.04 | 2,730 | $ 2.81 | 284 | $ 2.14 | | $ |
| Exercised | (818) | $ 10.13 | | $ | | $ | | $ |
| Terminated | (414) | $ 9.70 | (4) | $ 15.23 | | $ | (1,308) | $ 3.72 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of December 31, 2016 | 3,253 | $ | 6.19 | 3,436 | $ | 4.41 | 1,164 | $ | 6.72 | 10,840 | $ | 3.54 |

As of December 31, 2016 and 2015, total unrecognized stock-based compensation expense related to non-vested awards not yet recognized was $19 million and $29 million, respectively. This expense is expected to be recognized over a weighted-average period of approximately two years.

In 2016 and 2015, there was less than $1 million in cash received from stock options exercised in each year. New shares were issued to settle all exercised awards. The actual tax benefit realized for the tax deductions from the exercise of share-based awards was $1 million and $4 million as of December 31, 2016 and 2015, respectively.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Genworth Canada, our indirect subsidiary and a public company, grants stock options and other equity-based awards to its Canadian employees. The following table summarizes the status of Genworth Canada s stock option activity and other equity-based awards as of December 31, 2016 and 2015:

| | **Stock options** | **RSUs and PSUs** | **DSUs** | **Executive deferred stock units ( EDSUs )** |
|---|---|---|---|---|
| **(Shares and awards in thousands)** | **Shares subject to option** | **Number of awards** | **Number of awards** | **Number of awards** |
| Balance as of January 1, 2015 | 1,002 | 203 | 54 | 21 |
| Granted | 53 | 78 | 14 | 10 |
| Exercised | (88) | (60) | (14) | |
| Terminated | (12) | (27) | | |
| Balance as of January 1, 2016 | 955 | 194 | 54 | 31 |
| Granted | 95 | 126 | 12 | 14 |
| Exercised | (65) | (77) | (2) | |
| Terminated | (28) | (8) | | |
| Balance as of December 31, 2016 | 957 | 235 | 64 | 45 |

As of December 31, 2016 and 2015, the DSUs were fully vested and the stock options, RSUs, PSUs and EDSUs were partially vested. The EDSUs were introduced in 2013 as part of a share-based compensation plan intended for executive level employees entitling them to receive an amount equal to the fair value of Genworth Canada stock. For the years ended December 31, 2016, 2015 and 2014, we recorded stock-based compensation expense of $8 million, $(3) million and $6 million, respectively. For the years ended December 31, 2016, 2015 and 2014, we estimated total unrecognized expense of $3 million, $2 million and $3 million, respectively, related to these awards.

In connection with the IPO of Genworth Mortgage Insurance Australia Limited ( Genworth Australia ) in May 2014, our indirect subsidiary, Genworth Australia, granted stock options and other equity-based awards to its Australian employees. Additionally, in 2016 Genworth Australia granted approximately 742,000 share rights in conjunction with their long-term incentive plan for key employees. During 2016, approximately 348,000 share rights were forfeited and as of December 31, 2016, there were approximately 925,000 shares outstanding related to this plan. The following table summarizes the status of Genworth Australia s restricted share rights as of December 31, 2016 and 2015:

| | **Restricted share rights** | **Long-term Incentive Plan** |
|---|---|---|

| (Shares in thousands) | Shares subject to option | Shares subject to option |
|---|---|---|
| Balance as of January 1, 2015 | 2,803 | |
| Granted | 147 | 533 |
| Exercised | (40) | |
| Terminated | (145) | |
| Balance as of January 1, 2016 | 2,765 | 533 |
| Granted | 280 | 742 |
| Exercised | (892) | (2) |
| Terminated | (884) | (348) |
| Balance as of December 31, 2016 | 1,269 | 925 |

287

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

As of December 31, 2016 and 2015, none of the restricted share rights were vested. For the years ended December 31, 2016 and 2015, we recorded stock-based compensation expense of $1 million and $2 million, respectively, and we estimated total unrecognized expense of $1 million and $4 million, respectively, related to these awards.

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

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

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

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

*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

288

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

and current market spread assumption, which is estimated based on recent transactions for these instruments or similar instruments as well as other market information or broker provided data. Given these instruments are private and very little market activity exists, our current market spread assumption is considered to have significant unobservable inputs in calculating fair value and, therefore, results in the fair value of these instruments being classified as Level 3.

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

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

The following represents our estimated fair value of financial assets and liabilities that are not required to be carried at fair value as of December 31:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Notional | Carrying | Fair value | | | |
| **(Amounts in millions)** | **amount** | **amount** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | | | |
| Commercial mortgage loans | (1) | $ 6,111 | $ 6,247 | $ | $ | $ 6,247 |
| Restricted commercial mortgage loans (2) | (1) | 129 | 141 | | | 141 |
| Other invested assets | (1) | 459 | 473 | | 352 | 121 |
| Liabilities: | | | | | | |
| Long-term borrowings (3) | (1) | 4,180 | 3,582 | | 3,440 | 142 |
| Non-recourse funding obligations (3) | (1) | 310 | 186 | | | 186 |
| Borrowings related to securitization entities (2) | (1) | 62 | 65 | | 65 | |
| Investment contracts | (1) | 16,437 | 16,993 | | 5 | 16,988 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | $ 201 | | | | | |
| Ordinary course of business lending commitments | 73 | | | | | |

289

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Notional | Carrying | Fair value | | | |
| **(Amounts in millions)** | **amount** | **amount** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | | | |
| Commercial mortgage loans | (1) | $ 6,170 | $ 6,476 | $ | $ | $ 6,476 |
| Restricted commercial mortgage loans (2) | (1) | 161 | 179 | | | 179 |
| Other invested assets | (1) | 273 | 279 | | 197 | 82 |
| Liabilities: | | | | | | |
| Long-term borrowings (3) | (1) | 4,570 | 3,518 | | 3,343 | 175 |
| Non-recourse funding obligations (3) | (1) | 1,920 | 1,401 | | | 1,401 |
| Borrowings related to securitization entities (2) | (1) | 98 | 104 | | 104 | |
| Investment contracts | (1) | 17,258 | 17,910 | | 5 | 17,905 |
| Other firm commitments: | | | | | | |
| Commitments to fund limited partnerships | $ 131 | | | | | |
| Ordinary course of business lending commitments | 40 | | | | | |

(1) These financial instruments do not have notional amounts.
(2) See note 17 for additional information related to consolidated securitization entities.
(3) See note 12 for additional information related to borrowings.

*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 fair value of fixed maturity, equity and trading securities are estimated primarily based on information derived from third-party pricing services ( pricing services ), internal models and/or third-party broker provided prices ( broker quotes ), which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, a security is valued using that market information for similar securities, which is also a market approach. When market information is not available for a specific security or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including mortgage-backed or asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

We utilize certain third-party data providers when determining fair value. We consider information obtained from pricing services as well as 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

290

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 evaluate changes in fair value that are greater than certain pre-defined thresholds 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. A pricing committee provides additional oversight and guidance in the evaluation and review of the pricing methodologies used to value our investment portfolio.

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. When available, we also evaluate the prices sampled as compared to other public prices. If a variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. 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 income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. 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 and value all private fixed maturity securities at par that have less than 12 months to maturity. 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. If a pricing variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. At the end of each month, all internally modeled prices are compared to the prior month prices with an evaluation of all securities with a month-over-month change greater than a pre-defined threshold. While we generally consider the public

291

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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. Additionally, for broker quotes on certain structured securities, we validate prices received against other publicly available pricing sources. Broker quotes are typically based on an income approach given the lack of available market data. 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 determine fair value using an income approach. We analyze a sample each month to assess reasonableness given then-current market conditions. 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.

A summary of the inputs used for our fixed maturity, equity and trading securities based on the level in which instruments are classified is included below. We have combined certain classes of instruments together as the nature of the inputs is similar.

**Level 1 measurements**

*Equity securities.* The primary inputs to the valuation of exchange-traded equity securities include quoted prices for the identical instrument.

*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.

**Level 2 measurements**

*Fixed maturity securities*

*Third-party pricing services:* In estimating the fair value of fixed maturity securities, approximately 91% of our portfolio is priced using third-party pricing sources. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by third-party pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our third-party pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents a summary of the significant inputs used by our third-party pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of December 31, 2016:

| (Amounts in millions) | Fair value | Primary methodologies | Significant inputs |
|---|---|---|---|
| U.S. government, agencies and government-sponsored enterprises | $ 6,034 | Price quotes from trading desk, broker feeds | Bid side prices, trade prices, Option Adjusted Spread ( OAS ) to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread |
| State and political subdivisions | $ 2,603 | Multi-dimensional attribute-based modeling systems, third-party pricing vendors | Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes |
| Non-U.S. government | $ 2,090 | Matrix pricing, spread priced to benchmark curves, price quotes from market makers | Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources |
| U.S. corporate | $ 23,701 | Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models | Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine ( TRACE ) reports |
| Non-U.S. corporate | $ 10,445 | Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers | Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources |
| Residential mortgage-backed | $ 4,336 | OAS-based models, To Be Announced pricing models, single factor binomial models, internally priced | Prepayment and default assumptions, aggregation of bonds with similar characteristics, including collateral type, vintage, tranche type, weighted-average life, weighted-average loan age, issuer program and delinquency ratio, pay up and pay down factors, TRACE reports |
| | $ 3,075 | | |

| | | | |
|---|---|---|---|
| Commercial mortgage-backed | | Multi-dimensional attribute-based modeling systems, pricing matrix, spread matrix priced to swap curves, Trepp commercial mortgage-backed securities analytics model | Credit risk, interest rate risk, prepayment speeds, new issue data, collateral performance, origination year, tranche type, original credit ratings, weighted-average life, cash flows, spreads derived from broker quotes, bid side prices, spreads to daily updated swaps curves, TRACE reports |
| Other asset-backed | $ 3,006 | Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models | Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports |

293

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Internal models:* A portion of our state and political subdivisions, non-U.S. government, U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities were $7 million, $17 million, $640 million and $317 million, respectively, as of December 31, 2016. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

*Equity securities.* The primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active.

*Securities lending 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.

**Level 3 measurements**

*Fixed maturity securities*

*Internal models:* A portion of our U.S. government, agencies and government-sponsored enterprises, U.S. corporate, non-U.S. corporate, residential mortgage-backed and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities where there are no external ratings of the instrument and include a significant unobservable input. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was $3,588 million as of December 31, 2016.

*Broker quotes:* A portion of our state and political subdivisions, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by third-party pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was $713 million as of December 31, 2016.

*Equity securities.* The primary inputs to the valuation include broker quotes where the underlying inputs are unobservable and for internal models, structure of the security and issuer rating.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*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.

*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 December 31, 2016 and 2015, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $73 million and $79 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.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 have 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 have 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 CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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.

**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 have not recorded any incremental adjustment for our non-performance risk or the non-performance risk of the derivative counterparty for our derivative assets or liabilities. We determine fair value for our derivatives using an income approach with internal models based on relevant market inputs for each derivative instrument. We also compare the fair value determined using our internal model to the valuations provided by our derivative counterparties with any significant differences or changes in valuation being evaluated further by our derivatives professionals that are familiar with the instrument and market inputs used in the valuation.

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

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

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

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

*Credit default swaps.* We have both single name credit default swaps and index tranche credit default swaps. For single name credit default swaps, we utilize an income approach to determine fair value based on using

297

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 primary inputs into the valuation represent the forward interest rate swap curve, foreign currency exchange rates,

298

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following tables set forth our assets by class of instrument that are measured at fair value on a recurring basis as of December 31:

| | 2016 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 6,036 | $ | $ 6,034 | $ 2 |
| State and political subdivisions | 2,647 | | 2,610 | 37 |
| Non-U.S. government | 2,107 | | 2,107 | |
| U.S. corporate: | | | | |
| Utilities | 4,550 | | 3,974 | 576 |
| Energy | 2,300 | | 2,090 | 210 |
| Finance and insurance | 6,097 | | 5,311 | 786 |
| Consumer non-cyclical | 4,734 | | 4,613 | 121 |
| Technology and communications | 2,598 | | 2,544 | 54 |
| Industrial | 1,223 | | 1,175 | 48 |
| Capital goods | 2,258 | | 2,106 | 152 |
| Consumer cyclical | 1,530 | | 1,272 | 258 |
| Transportation | 1,190 | | 1,051 | 139 |
| Other | 348 | | 205 | 143 |
| Total U.S. corporate | 26,828 | | 24,341 | 2,487 |
| Non-U.S. corporate: | | | | |
| Utilities | 969 | | 583 | 386 |
| Energy | 1,331 | | 1,125 | 206 |
| Finance and insurance | 2,538 | | 2,356 | 182 |
| Consumer non-cyclical | 714 | | 575 | 139 |
| Technology and communications | 987 | | 920 | 67 |
| Industrial | 958 | | 849 | 109 |
| Capital goods | 535 | | 366 | 169 |
| Consumer cyclical | 442 | | 373 | 69 |
| Transportation | 677 | | 496 | 181 |
| Other | 3,144 | | 3,119 | 25 |
| Total non-U.S. corporate | 12,295 | | 10,762 | 1,533 |

| | | | | |
|---|---|---|---|---|
| Residential mortgage-backed | 4,379 | | 4,336 | 43 |
| Commercial mortgage-backed | 3,129 | | 3,075 | 54 |
| Other asset-backed | 3,151 | | 3,006 | 145 |
| Total fixed maturity securities | 60,572 | | 56,271 | 4,301 |
| Equity securities | 632 | 551 | 34 | 47 |
| Other invested assets: | | | | |
| Trading securities | 259 | | 259 | |
| Derivative assets: | | | | |
| Interest rate swaps | 596 | | 596 | |
| Foreign currency swaps | 4 | | 4 | |
| Equity index options | 72 | | | 72 |
| Equity return swaps | 1 | | 1 | |
| Other foreign currency contracts | 35 | | 32 | 3 |
| Total derivative assets | 708 | | 633 | 75 |
| Securities lending collateral | 534 | | 534 | |
| Total other invested assets | 1,501 | | 1,426 | 75 |
| Restricted other invested assets related to securitization entities (1) | 312 | | 181 | 131 |
| Reinsurance recoverable (2) | 16 | | | 16 |
| Separate account assets | 7,299 | 7,299 | | |
| Total assets | $ 70,332 | $ 7,850 | $ 57,912 | $ 4,570 |

(1) See note 17 for additional information related to consolidated securitization entities.
(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| | 2015 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Assets | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 6,203 | $ | $ 6,200 | $ 3 |
| State and political subdivisions | 2,438 | | 2,403 | 35 |
| Non-U.S. government | 2,015 | | 2,015 | |
| U.S. corporate: | | | | |
| Utilities | 3,693 | | 3,244 | 449 |
| Energy | 2,501 | | 2,248 | 253 |
| Finance and insurance | 5,632 | | 4,917 | 715 |
| Consumer non-cyclical | 4,096 | | 3,987 | 109 |
| Technology and communications | 2,193 | | 2,158 | 35 |
| Industrial | 1,173 | | 1,112 | 61 |
| Capital goods | 1,950 | | 1,770 | 180 |
| Consumer cyclical | 1,675 | | 1,436 | 239 |
| Transportation | 1,086 | | 980 | 106 |
| Other | 402 | | 220 | 182 |
| Total U.S. corporate | 24,401 | | 22,072 | 2,329 |
| Non-U.S. corporate: | | | | |
| Utilities | 843 | | 556 | 287 |
| Energy | 1,686 | | 1,434 | 252 |
| Finance and insurance | 2,473 | | 2,282 | 191 |
| Consumer non-cyclical | 752 | | 583 | 169 |
| Technology and communications | 988 | | 926 | 62 |
| Industrial | 986 | | 902 | 84 |
| Capital goods | 604 | | 391 | 213 |
| Consumer cyclical | 526 | | 455 | 71 |
| Transportation | 605 | | 461 | 144 |
| Other | 2,736 | | 2,664 | 72 |
| Total non-U.S. corporate | 12,199 | | 10,654 | 1,545 |
| Residential mortgage-backed | 5,101 | | 4,985 | 116 |
| Commercial mortgage-backed | 2,559 | | 2,549 | 10 |
| Other asset-backed | 3,281 | | 2,139 | 1,142 |

| | | | | |
|---|---|---|---|---|
| Total fixed maturity securities | 58,197 | | 53,017 | 5,180 |
| Equity securities | 310 | 270 | 2 | 38 |
| Other invested assets: | | | | |
| Trading securities | 447 | | 447 | |
| Derivative assets: | | | | |
| Interest rate swaps | 1,054 | | 1,054 | |
| Foreign currency swaps | 8 | | 8 | |
| Credit default swaps | 1 | | | 1 |
| Equity index options | 30 | | | 30 |
| Equity return swaps | 2 | | 2 | |
| Other foreign currency contracts | 17 | | 14 | 3 |
| Total derivative assets | 1,112 | | 1,078 | 34 |
| Securities lending collateral | 347 | | 347 | |
| Total other invested assets | 1,906 | | 1,872 | 34 |
| Restricted other invested assets related to securitization entities (1) | 413 | | 181 | 232 |
| Reinsurance recoverable (2) | 17 | | | 17 |
| Separate account assets | 7,883 | 7,883 | | |
| Total assets | $ 68,726 | $ 8,153 | $ 55,072 | $ 5,501 |

(1) See note 17 for additional information related to consolidated securitization entities.
(2) Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

301

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2016** | **Included in net loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3 [1]** | **Transfer out of Level 3 [1]** | **Ending balance as of December 31, 2016** | **Total gains (losses) included in net loss attributable to assets still held** |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 3 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 2 | $ |
| State and political subdivisions | 35 | 2 | | 7 | | | | | (7) | 37 | 2 |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 449 | 1 | 1 | 149 | (6) | | (21) | 73 | (70) | 576 | |
| Energy | 253 | | (2) | 10 | | | (11) | 7 | (47) | 210 | |
| Finance and insurance | 715 | 16 | 9 | 69 | (14) | | (63) | 72 | (18) | 786 | 15 |
| Consumer non-cyclical | 109 | | 3 | 30 | (18) | | (3) | | | 121 | |
| Technology and communications | 35 | 3 | (3) | 30 | | | | | (11) | 54 | 3 |
| Industrial | 61 | 5 | 2 | | | | (32) | 12 | | 48 | |
| Capital goods | 180 | 1 | (2) | 30 | (10) | | | | (47) | 152 | 1 |
| Consumer cyclical | 239 | 4 | (1) | 68 | (5) | | (44) | 19 | (22) | 258 | |
| Transportation | 106 | 2 | (1) | 53 | | | (26) | 5 | | 139 | 2 |
| Other | 182 | 1 | (2) | | | | (8) | 16 | (46) | 143 | 1 |
| Total U.S. corporate | 2,329 | 33 | 4 | 439 | (53) | | (208) | 204 | (261) | 2,487 | 22 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 287 | | (7) | 126 | (5) | | (51) | 46 | (10) | 386 | |
| Energy | 252 | | 30 | 8 | (27) | | (31) | | (26) | 206 | |
| Finance and insurance | 191 | 3 | (2) | 11 | (1) | | | | (20) | 182 | 3 |
| Consumer non-cyclical | 169 | 2 | 5 | 3 | (3) | | (49) | 12 | | 139 | |
| Technology and communications | 62 | | 3 | 18 | (16) | | | | | 67 | |
| Industrial | 84 | | 4 | 17 | (21) | | | 25 | | 109 | |
| Capital goods | 213 | 1 | 3 | | | | (15) | | (33) | 169 | 1 |
| Consumer cyclical | 71 | | | | | | (2) | | | 69 | |
| Transportation | 144 | 1 | | 12 | | | (15) | 39 | | 181 | |
| Other | 72 | (2) | 3 | | (13) | | (7) | 10 | (38) | 25 | (2) |
| Total non-U.S. corporate | 1,545 | 5 | 39 | 195 | (86) | | (170) | 132 | (127) | 1,533 | 2 |
| Residential mortgage-backed | 116 | | 1 | 51 | (45) | | (14) | 22 | (88) | 43 | |
| Commercial mortgage-backed | 10 | | (7) | 24 | | | (4) | 37 | (6) | 54 | |
| Other asset-backed | 1,142 | (17) | 3 | 16 | (26) | | (26) | 66 | (1,013) | 145 | (16) |
| Total fixed maturity securities | 5,180 | 23 | 40 | 732 | (210) | | (423) | 461 | (1,502) | 4,301 | 10 |
| Equity securities | 38 | | | 13 | (4) | | | | | 47 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 1 | | | | | | (1) | | | | |
| Equity index options | 30 | 10 | | 76 | | | (44) | | | 72 | 2 |
| Other foreign currency contracts | 3 | (1) | | 2 | | | (1) | | | 3 | (1) |
| Total derivative assets | 34 | 9 | | 78 | | | (46) | | | 75 | 1 |
| Total other invested assets | 34 | 9 | | 78 | | | (46) | | | 75 | 1 |
| Restricted other invested assets related to securitization entities (2) | 232 | (55) | | | | | (46) | | | 131 | 9 |
| Reinsurance recoverable (3) | 17 | (3) | | | | 2 | | | | 16 | (3) |
| Total Level 3 assets | $ 5,501 | $ (26) | $ 40 | $ 823 | $ (214) | $ 2 | $ (515) | $ 461 | $ (1,502) | $ 4,570 | $ 17 |

(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, as well as changes in the industry sectors assigned to specific securities. Most significantly, the majority of the transfers out of Level 3 related to a reclassification of collateralized loan obligation securities previously valued using a broker priced source to now being valued using third-party pricing services.

(2) See note 17 for additional information related to consolidated securitization entities.

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| | | Total realized and unrealized gains (losses) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2015** | **Included in net loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** [(1)] | **Transfer out of Level 3** [(1)] | **Ending balance as of December 31, 2015** | **Total gains (losses) included in net loss attributable to assets still held** |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 4 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 3 | $ |
| State and political subdivisions | 30 | 3 | 7 | 5 | | | | | (10) | 35 | 3 |
| Non-U.S. government | 7 | | (1) | | | | (1) | | (5) | | |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 444 | | (14) | 67 | | | (16) | 10 | (42) | 449 | |
| Energy | 285 | | (13) | 4 | (4) | | (11) | | (8) | 253 | |
| Finance and insurance | 616 | 16 | (28) | 90 | | | (33) | 97 | (43) | 715 | 14 |
| Consumer non-cyclical | 140 | 2 | (3) | 29 | (9) | | (40) | | (10) | 109 | |
| Technology and communications | 45 | 3 | (2) | | | | | | (11) | 35 | 3 |
| Industrial | 36 | | (3) | 28 | | | | | | 61 | |
| Capital goods | 166 | | (6) | 30 | (3) | | (1) | | (6) | 180 | |
| Consumer cyclical | 363 | 1 | (8) | 39 | | | (52) | 11 | (115) | 239 | |
| Transportation | 153 | 1 | (5) | 7 | | | (31) | | (19) | 106 | 1 |
| Other | 171 | 1 | (2) | | | | (7) | 19 | | 182 | 1 |
| Total U.S. corporate | 2,419 | 24 | (84) | 294 | (16) | | (191) | 137 | (254) | 2,329 | 19 |
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 328 | | (4) | 18 | | | (46) | | (9) | 287 | |
| Energy | 324 | (1) | (21) | 15 | (24) | | (41) | | | 252 | (1) |
| Finance and insurance | 221 | 5 | (6) | 21 | | | (26) | | (24) | 191 | 3 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Consumer non-cyclical | 197 | | (1) | 15 | | | (41) | | (1) | 169 | |
| Technology and communications | 42 | | (4) | 24 | | | | | | 62 | |
| Industrial | 131 | | (4) | 7 | | | (18) | 1 | (33) | 84 | |
| Capital goods | 237 | | (7) | | | | (17) | | | 213 | |
| Consumer cyclical | 89 | | (2) | | | | | 15 | (31) | 71 | |
| Transportation | 154 | | (2) | | | | (8) | | | 144 | |
| Other | 81 | | 2 | | | | (11) | | | 72 | |
| Total non-U.S. corporate | 1,804 | 4 | (49) | 100 | (24) | | (208) | 16 | (98) | 1,545 | 2 |
| Residential mortgage-backed | 65 | | (1) | 58 | | | (10) | 76 | (72) | 116 | |
| Commercial mortgage-backed | 5 | | (1) | 9 | | | (2) | 13 | (14) | 10 | |
| Other asset-backed | 1,420 | 2 | 2 | 152 | (190) | | (267) | 164 | (141) | 1,142 | |
| Total fixed maturity securities | 5,754 | 33 | (127) | 618 | (230) | | (680) | 406 | (594) | 5,180 | 24 |
| Equity securities | 34 | | | 1 | (6) | | | 9 | | 38 | |
| Other invested assets: | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 3 | 1 | | | | | (3) | | | 1 | 1 |
| Equity index options | 17 | (25) | | 38 | | | | | | 30 | (3) |
| Other foreign currency contracts | | (2) | | 5 | | | | | | 3 | (1) |
| Total derivative assets | 20 | (26) | | 43 | | | (3) | | | 34 | (3) |
| Total other invested assets | 20 | (26) | | 43 | | | (3) | | | 34 | (3) |
| Restricted other invested assets related to securitization entities (2) | 230 | 2 | | | | | | | | 232 | 2 |
| Reinsurance recoverable (3) | 13 | 1 | | | | 3 | | | | 17 | 1 |
| Total Level 3 assets | $ 6,051 | $ 10 | $ (127) | $ 662 | $ (236) | $ 3 | $ (683) | $ 415 | $ (594) | $ 5,501 | $ 24 |

(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, as well as changes in the industry sectors assigned to specific securities.

(2) See note 17 for additional information related to consolidated securitization entities.

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

304

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| | | Total realized and unrealized gains (losses) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2014** | **Included in net loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** [(1)] | **Transfer out of Level 3** [(1)] | **Ending balance as of December 31, 2014** | **Total gains (losses) included in net loss attributable to assets still held** |
| Fixed maturity securities: | | | | | | | | | | | |
| U.S. government, agencies and government-sponsored enterprises | $ 5 | $ | $ | $ | $ | $ | $ (1) | $ | $ | $ 4 | $ |
| State and political subdivisions | 27 | 2 | (4) | 5 | | | | | | 30 | 2 |
| Non-U.S. government | 23 | | | 2 | | | (2) | | (16) | 7 | |
| U.S. corporate: | | | | | | | | | | | |
| Utilities | 420 | | 11 | 12 | | | (5) | 58 | (52) | 444 | |
| Energy | 281 | | | 40 | | | (4) | 27 | (59) | 285 | |
| Finance and insurance | 433 | 14 | 23 | 39 | (1) | | (10) | 155 | (37) | 616 | 3 |
| Consumer non-cyclical | 224 | 2 | 2 | | (38) | | (60) | 10 | | 140 | |
| Technology and communications | 60 | 3 | 5 | | (20) | | (13) | 10 | | 45 | 3 |
| Industrial | 24 | 2 | 1 | 27 | | | (15) | | (3) | 36 | |
| Capital goods | 139 | | 3 | 8 | | | | 31 | (15) | 166 | |
| Consumer cyclical | 386 | 1 | 1 | 62 | (1) | | (86) | | | 363 | 1 |
| Transportation | 196 | 2 | 4 | 10 | | | (11) | | (48) | 153 | 2 |
| Other | 210 | 2 | 8 | 8 | | | (47) | 10 | (20) | 171 | 1 |
| Total U.S. corporate | 2,373 | 26 | 58 | 206 | (60) | | (251) | 301 | (234) | 2,419 | 10 |
| Non-U.S. corporate: | | | | | | | | | | | |
| Utilities | 260 | | 6 | 54 | | | (14) | 22 | | 328 | |
| Energy | 320 | | (14) | 55 | | | (48) | 20 | (9) | 324 | |
| Finance and insurance | 181 | 3 | 32 | 71 | (42) | | (8) | 21 | (37) | 221 | 2 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Consumer non-cyclical | 212 | | (4) | 35 | | | (46) | | | 197 | |
| Technology and communications | 58 | | (1) | 20 | (35) | | | | | 42 | |
| Industrial | 151 | | 2 | | (12) | | | | (10) | 131 | |
| Capital goods | 299 | 1 | (3) | 30 | (35) | | (52) | 10 | (13) | 237 | |
| Consumer cyclical | 96 | | | 6 | | | (13) | | | 89 | |
| Transportation | 153 | | 1 | 11 | | | (25) | 14 | | 154 | |
| Other | 89 | | (11) | | | | (17) | 20 | | 81 | |
| Total non-U.S. corporate | 1,819 | 4 | 8 | 282 | (124) | | (223) | 107 | (69) | 1,804 | 2 |
| Residential mortgage-backed | 104 | | (3) | 16 | (23) | | (9) | 13 | (33) | 65 | |
| Commercial mortgage-backed | 6 | | 2 | | | | (2) | 7 | (8) | 5 | |
| Other asset-backed | 1,166 | 5 | (3) | 298 | (15) | | (181) | 244 | (94) | 1,420 | 1 |
| Total fixed maturity securities | 5,523 | 37 | 58 | 809 | (222) | | (669) | 672 | (454) | 5,754 | 15 |
| Equity securities | 78 | | | 1 | (38) | | | | (7) | 34 | |
| Other invested assets: | | | | | | | | | | | |
| Trading securities | 34 | | | | | | (3) | | (31) | | |
| Derivative assets: | | | | | | | | | | | |
| Credit default swaps | 10 | | | | | | (7) | | | 3 | |
| Equity index options | 12 | (31) | | 36 | | | | | | 17 | (28) |
| Other foreign currency contracts | 3 | (2) | | | (1) | | | | | | |
| Total derivative assets | 25 | (33) | | 36 | (1) | | (7) | | | 20 | (28) |
| Total other invested assets | 59 | (33) | | 36 | (1) | | (10) | | (31) | 20 | (28) |
| Restricted other invested assets related to securitization entities [2] | 211 | 19 | | | | | | | | 230 | 18 |
| Reinsurance recoverable [3] | (1) | 11 | | | | 3 | | | | 13 | 11 |
| Total Level 3 assets | $ 5,870 | $ 34 | $ 58 | $ 846 | $ (261) | $ 3 | $ (679) | $ 672 | $ (492) | $ 6,051 | $ 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) See note 17 for additional information related to consolidated securitization entities.

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

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the gains and losses included in net 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 years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Total realized and unrealized gains (losses) included in net loss: | | | |
| Net investment income | $ 44 | $ 42 | $ 44 |
| Net investment gains (losses) | (70) | (32) | (10) |
| Total | $ (26) | $ 10 | $ 34 |
| Total gains (losses) included in net loss attributable to assets still held: | | | |
| Net investment income | $ 30 | $ 33 | $ 19 |
| Net investment gains (losses) | (13) | (9) | (3) |
| Total | $ 17 | $ 24 | $ 16 |

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

306

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents a summary of the significant unobservable inputs used for certain asset fair value measurements that are based on internal models and classified as Level 3 as of December 31, 2016:

| (Amounts in millions) | Valuation technique | Fair value | Unobservable input | Range | Weighted-average |
|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | |
| U.S. corporate: | | | | | |
| Utilities | Internal models | $ 557 | Credit spreads | 92bps - 405bps | 145bps |
| Energy | Internal models | 73 | Credit spreads | 109bps - 312bps | 176bps |
| Finance and insurance | Internal models | 717 | Credit spreads | 84bps - 455bps | 224bps |
| Consumer non-cyclical | Internal models | 121 | Credit spreads | 100bps - 247bps | 172bps |
| Technology and communications | Internal models | 54 | Credit spreads | 96bps - 371bps | 307bps |
| Industrial | Internal models | 48 | Credit spreads | 121bps - 254bps | 191bps |
| Capital goods | Internal models | 152 | Credit spreads | 79bps - 298bps | 144bps |
| Consumer cyclical | Internal models | 234 | Credit spreads | 79bps - 296bps | 187bps |
| Transportation | Internal models | 131 | Credit spreads | 79bps - 259bps | 166bps |
| Other | Internal models | 128 | Credit spreads | 89bps - 173bps | 114bps |
| Total U.S. corporate | Internal models | $ 2,215 | Credit spreads | 79bps - 455bps | 182bps |
| Non-U.S. corporate: | | | | | |
| Utilities | Internal models | $ 380 | Credit spreads | 101bps - 163bps | 129bps |
| Energy | Internal models | 133 | Credit spreads | 117bps - 186bps | 147bps |
| Finance and insurance | Internal models | 172 | Credit spreads | 95bps - 223bps | 141bps |
| Consumer non-cyclical | Internal models | 127 | Credit spreads | 79bps - 232bps | 146bps |
| Technology and communications | Internal models | 67 | Credit spreads | 121bps - 274bps | 190bps |
| Industrial | Internal models | 100 | Credit spreads | 117bps - 226bps | 175bps |
| Capital goods | Internal models | 121 | Credit spreads | 117bps - 186bps | 142bps |
| Consumer cyclical | Internal models | 69 | Credit spreads | 109bps - 168bps | 139bps |
| Transportation | Internal models | 152 | Credit spreads | 100bps - 250bps | 140bps |
| Other | Internal models | 12 | Credit spreads | 96bps - 1,000bps | 303bps |
| Total non-U.S. corporate | Internal models | $ 1,333 | Credit spreads | 79bps - 1,000bps | 145bps |
| Derivative assets: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Equity index options | Discounted cash flows | $ 72 | Equity index volatility | % - 26% | 17% |
| | | | Interest rate volatility | 29% | Not applicable |
| Other foreign currency contracts | Discounted cash flows | $ 3 | Foreign exchange rate volatility | 9% - 12% | 11% |

Certain classes of instruments classified as Level 3 are excluded above 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.

307

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following tables set forth our liabilities by class of instrument that are measured at fair value on a recurring basis as of December 31:

| | 2016 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [(1)] | $ 303 | $ | $ | $ 303 |
| Fixed index annuity embedded derivatives | 344 | | | 344 |
| Indexed universal life embedded derivatives | 11 | | | 11 |
| Total policyholder account balances | 658 | | | 658 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 349 | | 349 | |
| Foreign currency swaps | 5 | | 5 | |
| Credit default swaps related to securitization entities [(2)] | 1 | | 1 | |
| Equity return swaps | 1 | | 1 | |
| Other foreign currency contracts | 27 | | 27 | |
| Total derivative liabilities | 383 | | 383 | |
| Borrowings related to securitization entities [(2)] | 12 | | | 12 |
| Total liabilities | $ 1,053 | $ | $ 383 | $ 670 |

(1) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
(2) See note 17 for additional information related to consolidated securitization entities.

| | 2015 | | | |
|---|---|---|---|---|
| **(Amounts in millions)** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Liabilities | | | | |
| Policyholder account balances: | | | | |
| GMWB embedded derivatives [(1)] | $ 352 | $ | $ | $ 352 |
| Fixed index annuity embedded derivatives | 342 | | | 342 |

| | | | | |
|---|---|---|---|---|
| Indexed universal life embedded derivatives | 10 | | | 10 |
| Total policyholder account balances | 704 | | | 704 |
| Derivative liabilities: | | | | |
| Interest rate swaps | 220 | | 220 | |
| Interest rate swaps related to securitization entities [2] | 30 | | 30 | |
| Inflation indexed swaps | 33 | | 33 | |
| Foreign currency swaps | 27 | | 27 | |
| Credit default swaps related to securitization entities [2] | 14 | | | 14 |
| Equity return swaps | 1 | | 1 | |
| Other foreign currency contracts | 34 | | 34 | |
| Total derivative liabilities | 359 | | 345 | 14 |
| Borrowings related to securitization entities [2] | 81 | | | 81 |
| Total liabilities | $ 1,144 | $ | $ 345 | $ 799 |

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

(2) See note 17 for additional information related to consolidated securitization entities.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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, 2016 | Total realized and unrealized (gains) losses: Included in net loss | Total realized and unrealized (gains) losses: Included in OCI | Purchases | Sales | Issuances | Settlements | Transfer into Level 3 | Transfer out of Level 3 | Ending balance as of December 31, 2016 | Total (gains) losses included in net loss attributable to liabilities still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 352 | $ (79) | $ | $ | $ | $ 30 | $ | $ | $ | $ 303 | $ (73) |
| Fixed index annuity embedded derivatives | 342 | 22 | | | | 10 | (30) | | | 344 | 22 |
| Indexed universal life embedded derivatives | 10 | (10) | | | | 11 | | | | 11 | (10) |
| Total policyholder account balances | 704 | (67) | | | | 51 | (30) | | | 658 | (61) |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities [2] | 14 | (13) | | | | 2 | | | (3) | | |
| Total derivative liabilities | 14 | (13) | | | | 2 | | | (3) | | |
| Borrowings related to securitization entities [2] | 81 | (63) | | | | | (6) | | | 12 | 1 |
| Total Level 3 liabilities | $ 799 | $ (143) | $ | $ | $ | $ 53 | $ (36) | $ | $ (3) | $ 670 | $ (60) |

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

(2) See note 17 for additional information related to consolidated securitization entities.

| | | Total realized and unrealized (gains) losses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2015** | **Included in net loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of December 31, 2015** | **Total (gains) losses included in net loss attributable to liabilities still held** |
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 291 | $ 26 | $ | $ | $ | $ 35 | $ | $ | $ | $ 352 | $ 30 |
| Fixed index annuity embedded derivatives | 276 | 7 | | | | 65 | (6) | | | 342 | 7 |
| Indexed universal life embedded derivatives | 7 | (6) | | | | 9 | | | | 10 | (6) |
| Total policyholder account balances | 574 | 27 | | | | 109 | (6) | | | 704 | 31 |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities [2] | 17 | (7) | | 4 | | | | | | 14 | 21 |
| Total derivative liabilities | 17 | (7) | | 4 | | | | | | 14 | 21 |
| Borrowings related to securitization entities [2] | 85 | (4) | | | | | | | | 81 | (4) |
| Total Level 3 liabilities | $ 676 | $ 16 | $ | $ 4 | $ | $ 109 | $ (6) | $ | $ | $ 799 | $ 48 |

(1) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
(2) See note 17 for additional information related to consolidated securitization entities.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| | | Total realized and unrealized (gains) losses | | | | | | | | | Total (gains) losses included in net loss attributable to liabilities still held |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(Amounts in millions)** | **Beginning balance as of January 1, 2014** | **Included in net loss** | **Included in OCI** | **Purchases** | **Sales** | **Issuances** | **Settlements** | **Transfer into Level 3** | **Transfer out of Level 3** | **Ending balance as of December 31, 2014** | |
| Policyholder account balances: | | | | | | | | | | | |
| GMWB embedded derivatives [1] | $ 96 | $ 158 | $ | $ | $ | $ 37 | $ | $ | $ | $ 291 | $ 160 |
| Fixed index annuity embedded derivatives | 143 | 27 | | | | 108 | (2) | | | 276 | 27 |
| Indexed universal life embedded derivatives | | 1 | | | | 6 | | | | 7 | 1 |
| Total policyholder account balances | 239 | 186 | | | | 151 | (2) | | | 574 | 188 |
| Derivative liabilities: | | | | | | | | | | | |
| Credit default swaps related to securitization entities [2] | 32 | (19) | | 4 | | | | | | 17 | (19) |
| Other foreign current contracts | 1 | 1 | | | (2) | | | | | | |
| Total derivative liabilities | 33 | (18) | | 4 | (2) | | | | | 17 | (19) |
| Borrowings related to securitization entities [2] | 75 | 9 | | | | 1 | | | | 85 | 9 |
| Total Level 3 liabilities | $ 347 | $ 177 | $ | $ 4 | $ (2) | $ 152 | $ (2) | $ | $ | $ 676 | $ 178 |

(1) Represents embedded derivatives associated with our GMWB liabilities, excluding the impact of reinsurance.
(2) See note 17 for additional information related to consolidated securitization entities.

The following table presents the gains and losses included in net 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 years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Total realized and unrealized (gains) losses included in net loss: | | | |
| Net investment income | $ | $ | $ |
| Net investment (gains) losses | (79) | 16 | 177 |
| Other income | (64) | | |
| Total | $ (143) | $ 16 | $ 177 |
| Total (gains) losses included in net loss attributable to liabilities still held: | | | |
| Net investment income | $ | $ | $ |
| Net investment (gains) losses | (60) | 48 | 178 |
| Total | $ (60) | $ 48 | $ 178 |

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 presented for GMWB embedded derivative liabilities 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

310

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

upon issuance. Issuances for fixed index annuity and indexed universal life embedded derivative liabilities represent the amount of the premium received that is attributed to the value of the embedded derivative. Settlements of embedded derivatives 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 loss in the tables presented above.

The following table presents a summary of the significant unobservable inputs used for certain liability fair value measurements that are based on internal models and classified as Level 3 as of December 31, 2016:

| (Amounts in millions) | Valuation technique | Fair value | Unobservable input | Range | Weighted-average |
|---|---|---|---|---|---|
| Policyholder account balances: | | | | | |
| | | | Withdrawal utilization rate | 38% - 82% | 63% |
| | | | Lapse rate | % - 15% | 4% |
| | | | Non-performance risk (credit spreads) | 40bps - 85bps | 73bps |
| GMWB embedded derivatives [1] | Stochastic cash flow model | $ 303 | Equity index volatility | 16% - 24% | 21% |
| Fixed index annuity embedded derivatives | Option budget method | $ 344 | Expected future interest credited | % - 3% | 2% |
| Indexed universal life embedded derivatives | Option budget method | $ 11 | Expected future interest credited | 3% - 9% | 5% |

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

**(17) Variable Interest and Securitization Entities**

VIEs are generally entities that have either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. We evaluate VIEs to determine whether we are the primary beneficiary and are required to consolidate the assets and liabilities of the entity. The determination of the primary beneficiary for a VIE can be complex and requires management judgment regarding the expected results of the entity and who directs the activities of the entity that most significantly impact the economic results of the VIE.

*(a) Asset Securitizations*

We have used former affiliates and third-party entities to facilitate asset securitizations. Disclosure requirements related to off-balance sheet arrangements encompass a broader array of arrangements than those at risk for consolidation. These arrangements include transactions with term securitization entities, as well as transactions with conduits that are sponsored by third parties.

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table summarizes the total securitized assets as of December 31:

| (Amounts in millions) | 2016 | 2015 |
|---|---|---|
| Receivables secured by: | | |
| Other assets | $ | $ 136 |
| Total securitized assets not required to be consolidated | | 136 |
| Total securitized assets required to be consolidated | 129 | 267 |
| Total securitized assets | $ 129 | $ 403 |

We do not have any additional exposure or guarantees associated with these securitization entities.

There has been no new asset securitization activity in 2016 or 2015.

*(b) Securitization and Variable Interest Entities Required To Be Consolidated*

For VIEs related to asset securitization transactions, as of December 31, 2016, we consolidate a securitization entity as a result of our involvement in the entity s design or having certain decision making ability regarding the assets held by the securitization entity. Securitization entities were designed to have significant limitations on the types of assets owned and the types and extent of permitted activities and decision making rights. The securitization entity that is consolidated comprised an entity backed by commercial mortgage loans. Our primary economic interest in this securitization entity represents the excess interest of the commercial mortgage loans and the subordinated notes of the securitization entity.

For VIEs related to certain investments, we consolidate three securitization entities as a result of having certain decision making rights related to instruments held by the entities. Upon consolidation, we elected fair value option for the assets and liabilities for the securitization entity.

We previously consolidated a securitization entity backed by residual interests in certain policy loan securitization entities. Our primary economic interest in the policy loan securitization entity represented the excess interest received from the residual interest in certain policy loan securitization entities and the floating rate obligation issued by the securitization entity, where our economic interest was not expected to be material in any future years. Upon consolidation, we elected fair value option for the assets and liabilities for the securitization entity. In June 2016, we amended and exercised a clean-up call on this securitization entity writing off our residual interest and settling the outstanding debt of $70 million. As a result of this transaction, we recorded $64 million of realized investment losses related to the write-off of our residual interest in those entities and a $64 million gain related to the early extinguishment of debt which was included in other income. There was no impact to net loss. In addition, the policy loan securitization entities in which we previously held a residual interest were not required to be consolidated in our balance sheets.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table shows the assets and liabilities that were recorded for the consolidated securitization entities as of December 31:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Assets | | |
| Investments: | | |
| Restricted commercial mortgage loans | $ 129 | $ 161 |
| Restricted other invested assets: | | |
| Trading securities | 312 | 413 |
| Total restricted other invested assets | 312 | 413 |
| Total investments | 441 | 574 |
| Cash and cash equivalents | 1 | 1 |
| Accrued investment income | 1 | 1 |
| Other assets | 1 | 5 |
| Total assets | $ 444 | $ 581 |
| Liabilities | | |
| Other liabilities: | | |
| Derivative liabilities | $ 1 | $ 44 |
| Other liabilities | | 2 |
| Total other liabilities | 1 | 46 |
| Borrowings related to securitization entities | 74 | 179 |
| Total liabilities | $ 75 | $ 225 |

The assets and other instruments held by the securitization entities are restricted and can only be used to fulfill the obligations of the securitization entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated subsidiaries.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table shows the activity presented in our consolidated statement of income related to the consolidated securitization entities for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Revenues: | | | |
| Net investment income: | | | |
| Restricted commercial mortgage loans | $ 10 | $ 14 | $ 14 |
| Restricted other invested assets | 3 | 5 | 5 |
| Total net investment income | 13 | 19 | 19 |
| Net investment gains (losses): | | | |
| Derivatives | 8 | 3 | 10 |
| Trading securities | (57) | (2) | 15 |
| Borrowings related to securitization entities recorded at fair value | (1) | 4 | (9) |
| Total net investment gains (losses) | (50) | 5 | 16 |
| Other income | 64 | | |
| Total revenues | 27 | 24 | 35 |
| Expenses: | | | |
| Interest expense | 7 | 9 | 10 |
| Total expenses | 7 | 9 | 10 |
| Income before income taxes | 20 | 15 | 25 |
| Provision for income taxes | 7 | 5 | 9 |
| Net income | $ 13 | $ 10 | $ 16 |

*(c) Borrowings Related To Consolidated Securitization Entities*

Borrowings related to securitization entities were as follows as of December 31:

| (Amounts in millions) | 2016 Principal amount | 2016 Carrying value | 2015 Principal amount | 2015 Carrying value |
|---|---|---|---|---|
| GFCM LLC, due 2035, 5.7426% | $ 62 | $ 62 | $ 98 | $ 98 |
| Marvel Finance 2007-4 LLC, due 2017 (1), (2) | 12 | 12 | 12 | 10 |
| Genworth Special Purpose Five, LLC, due 2040 (1), (2) | | | NA(3) | 71 |
| Total | $ 74 | $ 74 | $ 110 | $ 179 |

(1) Accrual of interest based on three-month LIBOR that resets every three months plus a fixed margin.

(2) Carrying value represents fair value as a result of electing fair value option for these liabilities.

(3) Principal amount not applicable. Notional balance was $118 million as of December 31, 2015.

These borrowings are required to be paid down as principal is collected on the restricted investments held by the securitization entities and accordingly the repayment of these borrowings follows the maturity or prepayment, as permitted, of the restricted investments.

314

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

## (18) Insurance Subsidiary Financial Information and Regulatory Matters

*Dividends*

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 or contractholders, not stockholders. Any dividends in excess of limits are deemed extraordinary and require approval. Based on estimated statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $220 million to us in 2017 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $220 million is unrestricted, our insurance subsidiaries may not pay dividends to us in 2017 at this level if they need to retain capital for growth and to meet capital requirements and desired thresholds. As of December 31, 2016, Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $12.5 billion and $12.1 billion, respectively. There are no regulatory restrictions on the ability of Genworth Financial to pay dividends. Our Board of Directors has suspended the payment of dividends on our common stock indefinitely. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will be dependent on many factors including the receipt of dividends from our operating subsidiaries, our financial condition and operating results, the capital requirements of our subsidiaries, legal requirements, regulatory constraints, our credit and financial strength ratings and such other factors as the Board of Directors deems relevant.

Our domestic insurance subsidiaries paid dividends to our principal life insurance subsidiaries of $80 million (none of which were deemed extraordinary ), $41 million (none of which were deemed extraordinary ) and $108 million (none of which were deemed extraordinary ) during 2016, 2015 and 2014, respectively. Our international insurance subsidiaries paid dividends of $457 million, $640 million and $630 million during 2016, 2015 and 2014, respectively.

*U.S. domiciled insurance subsidiaries statutory financial information*

Our U.S. domiciled insurance subsidiaries file financial statements with state insurance regulatory authorities and the NAIC that are prepared on an accounting basis either prescribed or permitted by such authorities. Statutory accounting practices differ from U.S. GAAP in several respects, causing differences in reported net income (loss) and stockholders equity.

Permitted statutory accounting practices encompass all accounting practices not so prescribed but that have been specifically allowed by individual state insurance authorities. Our U.S. domiciled insurance subsidiaries have no material permitted accounting practices, except for River Lake Insurance Company VI ( River Lake VI ), River Lake Insurance Company VII ( River Lake VII ), River Lake Insurance Company VIII ( River Lake VIII ), River Lake Insurance Company IX ( River Lake IX ), River Lake Insurance Company X (( River Lake X ), together with River Lake VI, River Lake VII, River Lake VIII and River Lake IX, the SPFCs ) and GLICNY. The permitted practices of the SPFCs were an essential element of their design and were expressly included in their plans of operation and in the licensing orders issued by their domiciliary state regulators and without those permitted practices, these entities could be subject to regulatory action. Accordingly, we believe that the permitted practices will remain in effect for so long as we maintain the SPFCs. The permitted practices were as follows:

River Lake IX and River Lake X were granted a permitted accounting practice from the State of Vermont to carry their excess of loss reinsurance agreements with The Canada Life Assurance Company and Hannover Life Reassurance Company Of America, respectively, as an admitted asset.

315

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

River Lake VII and River Lake VIII were granted a permitted accounting practice from the State of Vermont to carry their reserves on a basis similar to U.S. GAAP.

River Lake VI was granted a permitted accounting practice from the State of Delaware to carry its excess of loss reinsurance agreement with The Canada Life Assurance Company as an admitted asset.

GLICNY received a permitted practice from New York to exempt certain of its investments from a NAIC structured security valuation and ratings process.

The impact of these permitted practices on our combined U.S. domiciled life insurance subsidiaries statutory capital and surplus was $7 million and $120 million as of December 31, 2016 and 2015, respectively. If permitted practices had not been used, no regulatory event would have been triggered.

In February 2016, as part of restructuring our U.S. life insurance businesses, we announced an initiative to repatriate existing reinsured business from BLAIC, our primary Bermuda domiciled captive reinsurance subsidiary, to our U.S. life insurance subsidiaries in 2016. On October 1, 2016, the repatriation was completed through the merger of BLAIC with and into GLIC, our Delaware domiciled life insurance company, with GLIC being the surviving company.

The tables below include the combined statutory net income (loss) and statutory capital and surplus for our U.S. domiciled insurance subsidiaries for the periods indicated:

| | **Years ended December 31,** | | |
|---|---|---|---|
| **(Amounts in millions)** | **2016** | **2015** | **2014** |
| Combined statutory net income (loss): | | | |
| Life insurance subsidiaries, excluding captive life reinsurance subsidiaries[1] | $ (365) | $ (583) | $ (179) |
| Mortgage insurance subsidiaries | 448 | 287 | 198 |
| Combined statutory net income (loss), excluding captive reinsurance subsidiaries | 83 | (296) | 19 |
| Captive life insurance subsidiaries | (403) | (276) | (281) |
| Combined statutory net income (loss) | $ (320) | $ (572) | $ (262) |

(1) The combined statutory net loss for the year ended December 31, 2015 was re-presented as if the merger of BLAIC with and into GLIC discussed above occurred on January 1, 2015 in accordance with the statutory merger method. However, we did not re-present the combined statutory net loss for the year ended December 31, 2014 in

accordance with statutory accounting principles and, therefore, the amounts are not comparable.

| **(Amounts in millions)** | **As of December 31, 2016** | **2015** |
|---|---|---|
| Combined statutory capital and surplus: | | |
| Life insurance subsidiaries, excluding captive life reinsurance subsidiaries(1) | $ 3,100 | $ 3,238 |
| Mortgage insurance subsidiaries | 2,201 | 1,722 |
| Combined statutory capital and surplus | $ 5,301 | $ 4,960 |

(1) The combined statutory capital and surplus as of December 31, 2015 was re-presented as if the merger of BLAIC with and into GLIC discussed above occurred on January 1, 2015 in accordance with the statutory merger method.

316

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

The statutory net income (loss) from our captive life reinsurance subsidiaries relates to the reinsurance of term and universal life insurance statutory reserves assumed from our U.S. domiciled life insurance companies. These reserves are, in turn, funded through the issuance of surplus notes (non-recourse funding obligations) to third parties or secured by excess of loss reinsurance treaties with third parties. Accordingly, the life insurance subsidiaries combined statutory net income (loss) and distributable income (loss) are not affected by the statutory net income (loss) of the captives, except to the extent dividends are received from the captives. The combined statutory capital and surplus of our life insurance subsidiaries does not include the capital and surplus of our captive life reinsurance subsidiaries of $274 million and $671 million as of December 31, 2016 and 2015, respectively. Capital and surplus of our captive life reinsurance subsidiaries included surplus notes (non-recourse funding obligations) of Rivermont I as of December 31, 2016 and 2015 and River Lake Insurance Company and River Lake II as of December 31, 2015, as further described in note 12.

The NAIC has adopted RBC requirements to evaluate the adequacy of statutory capital and surplus in relation to risks associated with: (i) asset risk; (ii) insurance risk; (iii) interest rate and equity market risk; and (iv) business risk. The RBC formula is designated as an early warning tool for the states to identify possible undercapitalized companies for the purpose of initiating regulatory action. In the course of operations, we periodically monitor the RBC level of each of our life insurance subsidiaries. As of December 31, 2016 and 2015, each of our life insurance subsidiaries exceeded the minimum required RBC levels. The consolidated RBC ratio of our U.S. domiciled life insurance subsidiaries was approximately 329% as of December 31, 2016 and 372% as of December 31, 2015 as re-presented for the merger of BLAIC with and into GLIC.

As of December 31, 2016 and 2015, we established $76 million and $198 million, respectively, of additional statutory reserves resulting from updates to our universal life insurance products with secondary guarantees in our Virginia and Delaware licensed life insurance subsidiaries. In addition, our Virginia licensed life insurance subsidiary currently expects to record approximately $95 million of additional statutory reserves in each of the next two years.

In addition, as a result of our annual statutory cash flow testing of our long-term care insurance business, our New York insurance subsidiary recorded $89 million of additional statutory reserves in the fourth quarter of 2015. Our cash flow testing results in the fourth quarter of 2016 did not require any additional statutory reserves; however, we currently expect to record an aggregate of approximately $110 million of additional statutory reserves over the next two years.

For regulatory purposes, our U.S. mortgage insurers are required to establish a special statutory contingency reserve. Annual additions to the statutory contingency reserve must equal 50% of net earned premiums, as defined by state insurance laws. These contingency reserves generally are held until the earlier of (i) the time that loss ratios exceed 35% or (ii) 10 years. However, approval by the North Carolina Department of Insurance ( NCDOI ) is required for contingency reserve releases when loss ratios exceed 35%. The statutory contingency reserve for our U.S. mortgage insurers was approximately $845 million and $500 million, respectively, as of December 31, 2016 and 2015 and was included in the table above containing combined statutory capital and surplus balances.

Mortgage insurers are not subject to the NAIC s RBC requirements but certain states and other regulators impose another form of capital requirement on mortgage insurers requiring maintenance of a risk-to-capital ratio not to exceed 25:1. Fifteen other states maintain similar risk-to-capital requirements. As of December 31, 2016, Genworth Mortgage Insurance Corporation s ( GMICO ) risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the NCDOI, GMICO s domestic insurance regulator, was approximately 14.5:1, compared with a risk-to-capital ratio of approximately 16.4:1 as of December 31, 2015.

317

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Effective December 31, 2015, each government-sponsored enterprise ( GSE ) adopted revised private mortgage insurer eligibility requirements ( PMIERs ) which set forth operational and financial requirements that mortgage insurers must meet in order to remain eligible. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERs. We have met all PMIERs reporting requirements as required by the GSEs. As of December 31, 2016 and 2015, we estimate our U.S. mortgage insurance business had available assets of approximately 115% and 109%, respectively, of the required assets under PMIERs. As of December 31, 2016 and 2015, the PMIERs sufficiency ratios were in excess of approximately $350 million, and $200 million, respectively, of available assets above the PMIERs requirements.

Effective July 1, 2016, our U.S. mortgage insurance business executed two excess of loss reinsurance transactions with a panel of reinsurers covering current and expected new insurance written for the 2016 and 2017 book years. The reinsurance transaction covering our 2016 book year and the three reinsurance transactions executed during 2015, covering our 2009 through 2015 book years, provided an aggregate of approximately $530 million of PMIERs capital credit as of December 31, 2016.

*International insurance subsidiaries statutory financial information*

Our international insurance subsidiaries also prepare financial statements in accordance with local regulatory requirements. Our international insurance subsidiaries previously included the results of BLAIC, our primary Bermuda domiciled captive reinsurance subsidiary. As discussed above, on October 1, 2016, BLAIC merged with and into GLIC, our Delaware domiciled life insurance company, with GLIC being the surviving company. The 2015 amounts below have been re-presented as if the merger of BLAIC with and into GLIC occurred on January 1, 2015. As of December 31, 2016 and 2015, combined local statutory capital and surplus included in continuing operations for our international insurance subsidiaries, excluding our lifestyle protection insurance and European mortgage insurance businesses, was $4,457 million and $4,394 million, respectively. Combined local statutory net income (loss) included in continuing operations for our international insurance subsidiaries, excluding our lifestyle protection insurance business, was $536 million, $511 million and $(66) million for the years ended December 31, 2016, 2015 and 2014, respectively. The regulatory authorities in these international jurisdictions generally establish supervisory solvency requirements. Our international insurance subsidiaries, excluding our lifestyle protection insurance and European mortgage insurance businesses, had combined surplus levels included in continuing operations that exceeded local solvency requirements by $576 million and $992 million as of December 31, 2016 and 2015, respectively.

Our international insurance subsidiaries do not have any material accounting practices that differ from local regulatory requirements other than one of our former insurance subsidiaries domiciled in Bermuda, which was granted approval from the Bermuda Monetary Authority to record a parental guarantee as statutory capital related to an internal reinsurance agreement. The amount recorded as statutory capital was equal to the excess of NAIC statutory reserves less the economic reserves up to the amount of the guarantee resulting in an increase in statutory capital of $205 million as of December 31, 2015. As a result of the merger of BLAIC with and into GLIC on October 1, 2016, all parental support provided to BLAIC, including the capital maintenance agreement that previously existed between Genworth Financial International Holdings, LLC and BLAIC, was terminated.

Certain of our insurance subsidiaries have securities on deposit with various state or foreign government insurance departments in order to comply with relevant insurance regulations. See note 4(d) for additional information related to these deposits. Additionally, under the terms of certain reinsurance agreements that our life insurance subsidiaries have with external parties, we pledged assets in either separate portfolios or in trust for the

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

benefit of external reinsurers. These assets support the reserves ceded to those external reinsurers. See note 8 for additional information related to these pledged assets under reinsurance agreements. Certain of our U.S. life insurance subsidiaries are also members of regional FHLBs and the FHLBs have been granted a lien on certain of our invested assets to collateralize our obligations. See note 9 for additional information related to these pledged assets with the FHLBs.

*Guarantees of obligations*

In addition to the guarantees discussed in notes 17 and 21, we have provided guarantees to third parties for the performance of certain obligations of our subsidiaries. We estimate that our potential obligations under such guarantees, other than the Rivermont I guarantee, were $9 million and $25 million as of December 31, 2016 and 2015, respectively. We provide a limited guarantee to Rivermont I, an indirect subsidiary, which is accounted for as a derivative carried at fair value and is eliminated in consolidation. As of December 31, 2016 the fair value of this derivative was less than $1 million and as of December 31, 2015, the fair value of this derivative was $4 million.

Genworth Holdings provided an unlimited guarantee for the benefit of policyholders for the payment of valid claims by our European mortgage insurance subsidiary prior to its sale in May 2016. Following the sale of this U.K. subsidiary to AmTrust Financial Services, Inc., the guarantee is now limited to the payment of valid claims on policies in-force prior to the sale date and those written approximately 90 days subsequent to the date of the sale, and AmTrust Financial Services, Inc. has agreed to provide us with a limited indemnification in the event there is any exposure under the guarantee. As of December 31, 2016, the risk in-force of the business subject to the guarantee was approximately $2.0 billion.

## (19) Segment Information

*(a) Operating Segment Information*

We have the following five operating business segments: U.S. Mortgage Insurance; Canada Mortgage Insurance; Australia Mortgage Insurance; U.S Life Insurance (which includes our long-term care insurance, life insurance and fixed annuities businesses); and Runoff (which includes the results of non-strategic products which have not been actively sold). In addition to our five operating business segments, we also have Corporate and Other activities which include debt financing expenses that are incurred at the Genworth Holdings level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations.

We allocate our consolidated provision for income taxes to our operating segments. Our allocation methodology applies a specific tax rate to the pre-tax income (loss) of each segment, which is then adjusted in each segment to reflect the tax attributes of items unique to that segment such as foreign income. The difference between the consolidated provision for income taxes and the sum of the provision for income taxes in each segment is reflected in

Corporate and Other activities. The annually-determined tax rates and adjustments to each segment s provision for income taxes are estimates which are subject to review and could change from year to year.

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net loss and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of adjusted operating income (loss) available to Genworth Financial, Inc. s

319

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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

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

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

In 2014, we recorded pre-tax goodwill impairments of $354 million in our long-term care insurance business and $495 million in our life insurance business.

In the second quarter of 2016, we completed the sale of our term life insurance new business platform and recorded a pre-tax gain of $12 million. In the second quarter of 2016, we also completed the sale of our mortgage insurance business in Europe and recorded an additional pre-tax loss of $2 million. In the first quarter of 2016, we recorded an estimated pre-tax loss of $7 million and a tax benefit of $27 million related to the planned sale of

320

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

our mortgage insurance business in Europe. We also recognized an estimated pre-tax loss of $140 million in the fourth quarter of 2015 for the planned sale of this business. We also incurred a $6 million tax benefit in the fourth quarter of 2015 related to the planned sale as well as a tax charge of $7 million in the third quarter of 2015 from potential business portfolio changes related to this business. These transactions were excluded from adjusted operating income (loss) for the periods presented as they related to a gain (loss) on the sale of businesses.

In the second quarter of 2016, we settled restricted borrowings of $70 million related to a securitization entity and recorded a $64 million pre-tax gain related to the early extinguishment of debt. In the first quarter of 2016, we paid a pre-tax make-whole expense of $20 million related to the early redemption of Genworth Holdings 2016 notes. We also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million in the first quarter of 2016. In the third quarter of 2015, we paid an early redemption payment of approximately $1 million, net of the portion attributable to noncontrolling interests, related to the early redemption of Genworth Financial Mortgage Insurance Pty Limited s notes that were scheduled to mature in 2021. In the third quarter of 2015, we also repurchased approximately $50 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax loss of $1 million. In the second quarter of 2014, we paid an early redemption payment of approximately $3 million, net of the portion attributable to noncontrolling interests, related to the early redemption of Genworth Canada s notes that were scheduled to mature in 2015. These transactions were excluded from adjusted operating income (loss) for the periods presented as they related to a gain (loss) on the early extinguishment of debt.

In the first quarter of 2016, we completed a life block transaction resulting in a pre-tax loss of $9 million in connection with the early extinguishment of non-recourse funding obligations. In the third quarter of 2015, we recorded a pre-tax DAC impairment of $455 million on certain term life insurance policies in connection with entering into an agreement to complete a life block transaction.

In 2016 and 2015, we recorded a pre-tax expense of $22 million and $8 million, respectively, related to restructuring costs as part of an expense reduction plan as the company evaluates and appropriately sizes its organizational needs and expenses.

There were no infrequent or unusual items excluded from adjusted operating income (loss) during the periods presented other than the following items. We incurred fees during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of $18 million for broker, advisor and investment banking fees. There was $205 million net tax impact in the fourth quarter of 2014 from potential business portfolio changes. We recognized a tax charge of $174 million in the fourth quarter of 2014 associated with our Australian mortgage insurance business as we could no longer assert our intent to permanently reinvest earnings in that business. In addition, in connection with our plans to sell our lifestyle protection insurance business, we made a change to the permanent reinvestment assertion of one of its legal entities recognizing tax expense of $31 million in the fourth quarter of 2014.

321

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following is a summary of our segments and Corporate and Other activities as of or for the years ended December 31:

| **2016** **(Amounts in millions)** | **U.S. Mortgage Insurance** | **Canada Mortgage Insurance** | **Australia Mortgage Insurance** | **U.S. Life Insurance** | **Runoff** | **Corporate and Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Premiums | $ 660 | $ 481 | $ 337 | $ 2,670 | $ | $ 12 | $ 4,160 |
| Net investment income | 63 | 126 | 94 | 2,726 | 147 | 3 | 3,159 |
| Net investment gains (losses) | (1) | 37 | 9 | 128 | (14) | (87) | 72 |
| Policy fees and other income | 4 | 1 | | 726 | 169 | 78 | 978 |
| Total revenues | 726 | 645 | 440 | 6,250 | 302 | 6 | 8,369 |
| Benefits and other changes in policy reserves | 160 | 104 | 113 | 4,822 | 42 | 4 | 5,245 |
| Interest credited | | | | 565 | 131 | | 696 |
| Acquisition and operating expenses, net of deferrals | 167 | 77 | 96 | 648 | 68 | 217 | 1,273 |
| Amortization of deferred acquisition costs and intangibles | 12 | 39 | 14 | 403 | 29 | 1 | 498 |
| Interest expense | | 18 | 10 | 38 | 1 | 270 | 337 |
| Total benefits and expenses | 339 | 238 | 233 | 6,476 | 271 | 492 | 8,049 |
| Income (loss) from continuing operations before income taxes | 387 | 407 | 207 | (226) | 31 | (486) | 320 |
| Provision (benefit) for income taxes | 138 | 113 | 67 | (80) | 6 | 114 | 358 |
| Income (loss) from continuing operations | 249 | 294 | 140 | (146) | 25 | (600) | (38) |
| Loss from discontinued operations, net of taxes | | | | | | (29) | (29) |
| Net income (loss) | 249 | 294 | 140 | (146) | 25 | (629) | (67) |
| Less: net income attributable to noncontrolling interests | | 135 | 75 | | | | 210 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ 249 | $ 159 | $ 65 | $ (146) | $ 25 | $ (629) | $ (277) |
| Segment assets | $ 2,674 | $ 4,884 | $ 2,619 | $ 81,933 | $ 11,352 | $ 1,196 | $ 104,658 |
| Assets held for sale | | | | | | | |
| Total assets | $ 2,674 | $ 4,884 | $ 2,619 | $ 81,933 | $ 11,352 | $ 1,196 | $ 104,658 |

322

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| **2015** (Amounts in millions) | **U.S. Mortgage Insurance** | **Canada Mortgage Insurance** | **Australia Mortgage Insurance** | **U.S. Life Insurance** | **Runoff** | **Corporate and Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Premiums | $ 602 | $ 466 | $ 357 | $ 3,128 | $ 1 | $ 25 | $ 4,579 |
| Net investment income | 58 | 130 | 114 | 2,701 | 138 | (3) | 3,138 |
| Net investment gains (losses) | 1 | (32) | 6 | (10) | (69) | 29 | (75) |
| Policy fees and other income | 4 | | (3) | 726 | 189 | (10) | 906 |
| Total revenues | 665 | 564 | 474 | 6,545 | 259 | 41 | 8,548 |
| Benefits and other changes in policy reserves | 222 | 96 | 81 | 4,692 | 44 | 14 | 5,149 |
| Interest credited | | | | 596 | 124 | | 720 |
| Acquisition and operating expenses, net of deferrals | 155 | 66 | 98 | 684 | 76 | 230 | 1,309 |
| Amortization of deferred acquisition costs and intangibles | 10 | 36 | 18 | 872 | 29 | 1 | 966 |
| Interest expense | | 18 | 10 | 92 | 1 | 298 | 419 |
| Total benefits and expenses | 387 | 216 | 207 | 6,936 | 274 | 543 | 8,563 |
| Income (loss) from continuing operations before income taxes | 278 | 348 | 267 | (391) | (15) | (502) | (15) |
| Provision (benefit) for income taxes | 99 | 90 | 80 | (138) | (10) | (130) | (9) |
| Income (loss) from continuing operations | 179 | 258 | 187 | (253) | (5) | (372) | (6) |
| Loss from discontinued operations, net of taxes | | | | | | (407) | (407) |
| Net income (loss) | 179 | 258 | 187 | (253) | (5) | (779) | (413) |
| Less: net income attributable to noncontrolling interests | | 118 | 84 | | | | 202 |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ 179 | $ 140 | $ 103 | $ (253) | $ (5) | $ (779) | $ (615) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Segment assets | $ 2,899 | $ 4,520 | $ 2,987 | $ 79,530 | $ 12,115 | $ 4,253 | $ 106,304 |
| Assets held for sale | | | | | | 127 | 127 |
| Total assets | $ 2,899 | $ 4,520 | $ 2,987 | $ 79,530 | $ 12,115 | $ 4,380 | $ 106,431 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| **2014** **(Amounts in millions)** | **U.S. Mortgage Insurance** | **Canada Mortgage Insurance** | **Australia Mortgage Insurance** | **U.S. Life Insurance** | **Runoff** | **Corporate and Other** | **Total** |
|---|---|---|---|---|---|---|---|
| Premiums | $ 578 | $ 515 | $ 406 | $ 3,169 | $ 3 | $ 29 | $ 4,700 |
| Net investment income | 59 | 155 | 144 | 2,665 | 129 | (10) | 3,142 |
| Net investment gains (losses) | | (2) | 3 | 41 | (66) | 2 | (22) |
| Policy fees and other income | 2 | 1 | (16) | 712 | 209 | 1 | 909 |
| Total revenues | 639 | 669 | 537 | 6,587 | 275 | 22 | 8,729 |
| Benefits and other changes in policy reserves | 357 | 102 | 78 | 5,820 | 37 | 24 | 6,418 |
| Interest credited | | | | 618 | 119 | | 737 |
| Acquisition and operating expenses, net of deferrals | 140 | 90 | 97 | 658 | 84 | 69 | 1,138 |
| Amortization of deferred acquisition costs and intangibles | 7 | 38 | 21 | 345 | 39 | 3 | 453 |
| Goodwill impairment | | | | 849 | | | 849 |
| Interest expense | | 21 | 10 | 87 | 1 | 314 | 433 |
| Total benefits and expenses | 504 | 251 | 206 | 8,377 | 280 | 410 | 10,028 |
| Income (loss) from continuing operations before income taxes | 135 | 418 | 331 | (1,790) | (5) | (388) | (1,299) |
| Provision (benefit) for income taxes | 44 | 111 | 248 | (385) | (19) | (93) | (94) |
| Income (loss) from continuing operations | 91 | 307 | 83 | (1,405) | 14 | (295) | (1,205) |
| Income from discontinued operations, net of taxes | | | | | | 157 | 157 |
| Net income (loss) | 91 | 307 | 83 | (1,405) | 14 | (138) | (1,048) |
| Less: net income attributable to noncontrolling interests | | 140 | 56 | | | | 196 |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ 91 | $ 167 | $ 27 | $ (1,405) | $ 14 | $ (138) | $ (1,244) |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(b) Revenues of Major Product Groups*

The following is a summary of revenues of major product groups for our segments and Corporate and Other activities for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Revenues: | | | |
| U.S. Mortgage Insurance segment | $ 726 | $ 665 | $ 639 |
| Canada Mortgage Insurance segment | 645 | 564 | 669 |
| Australia Mortgage Insurance segment | 440 | 474 | 537 |
| U.S. Life Insurance segment: | | | |
| Long-term care insurance | 4,037 | 3,752 | 3,523 |
| Life insurance | 1,381 | 1,902 | 1,981 |
| Fixed annuities | 832 | 891 | 1,083 |
| U.S. Life Insurance segment | 6,250 | 6,545 | 6,587 |
| Runoff segment | 302 | 259 | 275 |
| Corporate and Other activities | 6 | 41 | 22 |
| Total revenues | $ 8,369 | $ 8,548 | $ 8,729 |

325

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*(c) Reconciliations*

The following tables present the reconciliation of net loss available to Genworth Financial, Inc. s common stockholders to adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders for our segments and Corporate and Other activities and a summary of adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders for our segments and Corporate and Other activities for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |
| Add: net income attributable to noncontrolling interests | 210 | 202 | 196 |
| Net loss | (67) | (413) | (1,048) |
| Income (loss) from discontinued operations, net of taxes | (29) | (407) | 157 |
| Loss from continuing operations | (38) | (6) | (1,205) |
| Less: income from continuing operations attributable to noncontrolling interests | 210 | 202 | 196 |
| Loss from continuing operations available to Genworth Financial, Inc. s common stockholders | (248) | (208) | (1,401) |
| Adjustments to loss from continuing operations available to Genworth Financial, Inc. s common stockholders: | | | |
| Net investment (gains) losses, net [1] | (66) | 30 | 8 |
| Goodwill impairment | | | 849 |
| (Gains) losses from sale of businesses | (3) | 140 | |
| (Gains) losses on early extinguishment of debt, net [2] | (48) | 2 | 4 |
| Losses from life block transactions | 9 | 455 | |
| Expenses related to restructuring | 22 | 8 | |
| Tax impact from potential business portfolio changes | | | 205 |
| Fees associated with bond consent solicitation | 18 | | |
| Taxes on adjustments | | (172) | (63) |
| Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (316) | $ 255 | $ (398) |

(1)

For the years ended December 31, 2016, 2015 and 2014, net investment (gains) losses were adjusted for DAC and other intangible amortization and certain benefit reserves of $(14) million, $(35) million and $(14) million, respectively, and adjusted for net investment (gains) losses attributable to noncontrolling interests of $20 million, $(10) million and zero, respectively.

(2) For the years ended December 31, 2015 and 2014, (gains) losses on the early extinguishment of debt were adjusted for the portion attributable to noncontrolling interests of $1 million and $2 million, respectively.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders: | | | |
| U.S. Mortgage Insurance segment | $ 250 | $ 179 | $ 91 |
| Canada Mortgage Insurance segment | 146 | 152 | 170 |
| Australia Mortgage Insurance segment | 62 | 102 | 200 |
| U.S. Life Insurance segment: | | | |
| Long-term care insurance | (200) | 29 | (815) |
| Life insurance | (83) | (80) | 74 |
| Fixed annuities | 68 | 94 | 100 |
| U.S. Life Insurance segment | (215) | 43 | (641) |
| Runoff segment | 28 | 27 | 48 |
| Corporate and Other activities | (587) | (248) | (266) |
| Adjusted operating income (loss) available to Genworth Financial, Inc. s common stockholders | $ (316) | $ 255 | $ (398) |

*(d) Geographic Segment Information*

We conduct our operations in the following geographic regions: (1) United States (2) Canada (3) Australia and (4) Other Countries.

327

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following is a summary of geographic region activity as of or for the years ended December 31:

**2016**

| (Amounts in millions) | United States | Canada | Australia | Other Countries | Total International | Total |
|---|---|---|---|---|---|---|
| Total revenues | $ 7,270 | $ 645 | $ 440 | $ 14 | $ 1,099 | $ 8,369 |
| Income (loss) from continuing operations | $ (447) | $ 294 | $ 140 | $ (25) | $ 409 | $ (38) |
| Net income (loss) | $ (494) | $ 294 | $ 140 | $ (7) | $ 427 | $ (67) |
| Segment assets | $ 97,107 | $ 4,884 | $ 2,619 | $ 48 | $ 7,551 | $ 104,658 |
| Assets held for sale | $ | $ | $ | $ | $ | $ |
| Total assets | $ 97,107 | $ 4,884 | $ 2,619 | $ 48 | $ 7,551 | $ 104,658 |

**2015**

| (Amounts in millions) | United States | Canada | Australia | Other Countries | Total International | Total |
|---|---|---|---|---|---|---|
| Total revenues | $ 7,483 | $ 564 | $ 474 | $ 27 | $ 1,065 | $ 8,548 |
| Income (loss) from continuing operations | $ (430) | $ 258 | $ 187 | $ (21) | $ 424 | $ (6) |
| Net income (loss) | $ (430) | $ 258 | $ 187 | $ (428) | $ 17 | $ (413) |
| Segment assets | $ 98,738 | $ 4,520 | $ 2,987 | $ 59 | $ 7,566 | $ 106,304 |
| Assets held for sale | $ | $ | $ | $ 127 | $ 127 | $ 127 |
| Total assets | $ 98,738 | $ 4,520 | $ 2,987 | $ 186 | $ 7,693 | $ 106,431 |

**2014**

| (Amounts in millions) | United States | Canada | Australia | Other Countries | Total International | Total |
|---|---|---|---|---|---|---|
| Total revenues | $ 7,487 | $ 669 | $ 537 | $ 36 | $ 1,242 | $ 8,729 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income (loss) from continuing operations | $ | (1,570) | $ | 307 | $ | 83 | $ | (25) | $ | 365 | $ | (1,205) |
| Net income (loss) | $ | (1,570) | $ | 307 | $ | 83 | $ | 132 | $ | 522 | $ | (1,048) |

328

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

## (20) Quarterly Results of Operations (unaudited)

Our unaudited quarterly results of operations for the year ended December 31, 2016 are summarized in the table below.

| | Three months ended | | | |
|---|---|---|---|---|
| **(Amounts in millions, except per share amounts)** | **March 31, 2016** | **June 30, 2016** | **September 30, 2016** | **December 31, 2016** |
| Total revenues [1] | $ 1,785 | $ 2,236 | $ 2,150 | $ 2,198 |
| Total benefits and expenses [2] | $ 1,635 | $ 1,885 | $ 2,275 | $ 2,254 |
| Income (loss) from continuing operations [3] | $ 127 | $ 241 | $ (347) | $ (59) |
| Income (loss) from discontinued operations, net of taxes | $ (19) | $ (21) | $ 15 | $ (4) |
| Net income (loss) [3] | $ 108 | $ 220 | $ (332) | $ (63) |
| Net income attributable to noncontrolling interests | $ 55 | $ 48 | $ 48 | $ 59 |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders [3] | $ 53 | $ 172 | $ (380) | $ (122) |
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ 0.14 | $ 0.39 | $ (0.79) | $ (0.24) |
| Diluted | $ 0.14 | $ 0.39 | $ (0.79) | $ (0.24) |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ 0.11 | $ 0.35 | $ (0.76) | $ (0.25) |
| Diluted | $ 0.11 | $ 0.34 | $ (0.76) | $ (0.25) |
| Weighted-average common shares outstanding: | | | | |
| Basic | 498.0 | 498.5 | 498.3 | 498.4 |

| | | | | |
|---|---|---|---|---|
| Diluted [4] | 499.4 | 500.4 | 498.3 | 498.4 |

(1) We completed our annual review of assumptions in the fourth quarter of 2016, which resulted in higher revenues of $6 million in our universal life insurance products. The updated assumptions reflected changes primarily to mortality experience in older age populations.

(2) We completed our annual review of assumptions in the fourth quarter of 2016 as described above, which resulted in higher total benefits and expenses of $307 million in our universal and term universal life insurance products.

(3) We completed our annual review of assumptions in the fourth quarter of 2016 as described above, which resulted in $196 million, net of taxes, of charges in our universal and term universal life insurance products.

(4) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2016 and December 31, 2016, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the three months ended September 30, 2016 and December 31, 2016, as the inclusion of shares for stock options, RSUs and SARs of 2.2 million and 2.5 million, respectively, would have been antidilutive to the calculation. If we had not incurred a loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2016 and December 31, 2016, dilutive potential weighted-average common shares outstanding would have been 500.5 million and 500.9 million, respectively.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Our unaudited quarterly results of operations for the year ended December 31, 2015 are summarized in the table below.

| | Three months ended | | | |
|---|---|---|---|---|
| **(Amounts in millions, except per share amounts)** | **March 31, 2015** | **June 30, 2015** | **September 30, 2015** | **December 31, 2015** |
| Total revenues [1] | $ 2,135 | $ 2,157 | $ 2,100 | $ 2,156 |
| Total benefits and expenses [2] | $ 1,841 | $ 1,912 | $ 2,451 | $ 2,359 |
| Income (loss) from continuing operations [3] | $ 203 | $ 175 | $ (217) | $ (167) |
| Income from discontinued operations, net of taxes [4] | $ 1 | $ (314) | $ (21) | $ (73) |
| Net income (loss) [3], [4] | $ 204 | $ (139) | $ (238) | $ (240) |
| Net income attributable to noncontrolling interests | $ 50 | $ 54 | $ 46 | $ 52 |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ 154 | $ (193) | $ (284) | $ (292) |
| Income (loss) from continuing operations available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ 0.31 | $ 0.24 | $ (0.53) | $ (0.44) |
| Diluted | $ 0.31 | $ 0.24 | $ (0.53) | $ (0.44) |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share: | | | | |
| Basic | $ 0.31 | $ (0.39) | $ (0.57) | $ (0.59) |
| Diluted | $ 0.31 | $ (0.39) | $ (0.57) | $ (0.59) |
| Weighted-average common shares outstanding: | | | | |
| Basic | 497.0 | 497.4 | 497.4 | 497.6 |
| Diluted [5] | 498.9 | 499.3 | 497.4 | 497.6 |

(1) We completed our annual review of assumptions in the fourth quarter of 2015, which primarily resulted in $12 million of higher revenue in our universal and term universal life insurance products. The updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements.

(2) We completed our annual review of assumptions in the fourth quarter of 2015, which primarily resulted in $310 million of charges, which included $60 million of corrections related to reinsurance inputs, in our universal and term universal life insurance products. The updated assumptions reflected changes to persistency, long-term interest rates, mortality and other refinements. We also recorded an expected loss of $140 million related to the planned sale of our mortgage insurance business in Europe in the fourth quarter of 2015.

(3) We completed our annual review of assumptions in the fourth quarter of 2015, which primarily resulted in $194 million, net of taxes, of charges, which included $36 million, net of taxes, of corrections related to reinsurance inputs, in our universal and term universal life insurance products. We also recorded an expected loss of $134 million, net of taxes, related to the planned sale of our mortgage insurance business in Europe in the fourth quarter of 2015.

(4) We completed the sale of our lifestyle protection insurance business on December 1, 2015 and recorded an additional loss of $63 million, net of taxes, in the fourth quarter of 2015. The additional loss in the fourth quarter of 2015 was primarily related to the write off of currency translation adjustments on a holding company that was not part of the sale but related to our lifestyle protection insurance business that was substantially liquidated after the completion of the sale.

(5) Under applicable accounting guidance, companies in a loss position are required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share. Therefore, as a result of our loss from continuing operations available to Genworth Financial, Inc. s common stockholders for the three months ended September 30, 2015 and December 31, 2015, we were required to use basic weighted-average common shares outstanding in the calculation of diluted loss per share for the three months ended September 30, 2015 and December 31, 2015, as the inclusion of shares for stock options, RSUs and SARs of 1.3 million and 1.4 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 for the three months ended September 30, 2015 and December 31, 2015, dilutive potential weighted-average common shares outstanding would have been 498.7 million and 499.0 million, respectively.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

## (21) 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, product administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement and Procedures Act of 1974 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 and securities lawsuits. 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 an 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 an adverse effect on our business, financial condition or results of operations.

In a complaint filed in July 2016, Genworth Financial, Inc., GLAIC, GLICNY and GLIC were named in a putative class action lawsuit captioned *Estate of Helen F. Walsh, Deceased v. Genworth Financial, Inc., et al*, in the United States District Court for the Northern District of Ohio, Eastern Division. The complaint alleged breach of contract involving optional inflation increase benefit riders on certain long-term care insurance policies and sought unspecified actual damages, declaratory relief, attorneys fees, costs and pre-judgment and post-judgment interest. On September 23, 2016, we filed a motion to transfer the action to Connecticut and a motion to dismiss the action. Pursuant to stipulation, on October 14, 2016, the court ordered the matter dismissed without prejudice.

In August 2014, Genworth Financial, Inc., its current chief executive officer and its then 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 alleged securities law violations involving certain disclosures in 2013 and 2014 concerning Genworth s long-term care insurance reserves. The lawsuit sought 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 securities 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. In the *City of Pontiac* lawsuit, the United States District Court for the Eastern District of Virginia appointed Her Majesty the Queen in Right of Alberta and Fresno County Employees Retirement Association as lead plaintiffs and designated the caption of the action as *In re Genworth Financial, Inc.*

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

*Securities Litigation.* On December 22, 2014, the lead plaintiffs filed an amended complaint. On February 5, 2015, we filed a motion to dismiss plaintiffs amended complaint. On May 1, 2015, the court denied the motion to dismiss. We engaged in mediation in the fourth quarter of 2015, continuing into the first quarter of 2016, and accrued $25 million in connection with this matter, during the fourth quarter of 2015, which was the amount of our self-insured retention on our executive and organizational liability insurance program. On March 11, 2016, in connection with the mediation, we reached an agreement in principle to settle the action. On April 1, 2016, the parties entered into a stipulation and agreement of settlement. The settlement provides for a full release of all defendants in connection with the allegations made in the lawsuit. We believe that the plaintiffs claims are without merit, but we have settled the lawsuit to avoid the burden, risk and expense of further litigation. The agreement provides for a settlement payment to the class of $219 million, inclusive of all plaintiffs attorneys fees and expenses and settlement costs, of which $150 million was paid by our insurance carriers, and $69 million pre-tax was paid by Genworth. Our payment was made into an escrow account during the first quarter of 2016. We also incurred additional legal fees and expenses of approximately $10 million pre-tax, for a total additional pre-tax incurred amount of $79 million in the first quarter of 2016. On April 13, 2016, the court granted plaintiffs motion for preliminary approval of the settlement, provisional certification of the class for settlement purposes only, and issuance of notice to settlement class members. The court held a hearing on July 20, 2016 and approved the settlement. On September 26, 2016, the court entered final judgment in the action. The time to appeal the entry of this judgment expired on October 26, 2016. As a result of the approved settlement, all coverage available to Genworth under our 2014 executive and organizational liability insurance program was exhausted. Therefore, Genworth does not have coverage under the program to pay any future settlements or judgments in relation to litigation brought during the 2014 policy year, including the *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, case discussed below.

In April 2014, Genworth Financial, Inc., its former chief executive officer and its then 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 IPO of the business. The lawsuit seeks unspecified damages, costs and attorneys fees and such equitable/injunctive relief as the court may deem proper. The United States District Court for the Southern District of New York appointed City of Hialeah Employees Retirement System and New Bedford Contributory Retirement System as lead plaintiffs and designated the caption of the action as *In re Genworth Financial, Inc. Securities Litigation.* On October 3, 2014, the lead plaintiffs filed an amended complaint. On December 2, 2014, we filed a motion to dismiss plaintiffs amended complaint. On March 25, 2015, the United States District Court for the Southern District of New York denied the motion but entered an order dismissing the amended complaint with leave to replead. On April 17, 2015, plaintiffs filed a second amended complaint. We filed a motion to dismiss the second amended complaint and on June 16, 2015, the court denied the motion to dismiss. On January 22, 2016, we filed a motion for reconsideration of the court s June 16, 2015 order denying our motion to dismiss which the court denied on March 3, 2016. On January 29, 2016, plaintiffs filed a motion for class certification which we opposed. On March 7, 2016, the court granted plaintiffs motion for class certification. The parties are engaged in settlement discussions. However, if those discussions are unsuccessful, we intend to vigorously defend this action. As discussed above, we have exhausted all coverage under our 2014 executive and organizational liability insurance program applicable to this case; therefore, there is no insurance coverage for Genworth with respect to any settlement or judgment amount related to this litigation.

In January 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its former chief financial officer and current and former members of its board of directors were named in a shareholder derivative suit filed by International Union of Operating Engineers Local No. 478 Pension Fund,

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Richard L. Salberg and David Pinkoski in the Court of Chancery of the State of Delaware. The case was captioned *Int l Union of Operating Engineers Local No. 478 Pension Fund, et al v. McInerney, et al.* In February 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its former chief financial officer and current and former members of its board of directors were named in a second shareholder derivative suit filed by Martin Cohen in the Court of Chancery of the State of Delaware. The case was captioned *Cohen v. McInerney, et al*. On February 23, 2016, the Court of Chancery of the State of Delaware consolidated these derivative suits under the caption *Genworth Financial, Inc. Consolidated Derivative Litigation*. On March 28, 2016, plaintiffs in the consolidated action filed an amended complaint. The amended complaint alleges breaches of fiduciary duties concerning Genworth s long-term care insurance reserves and concerning Genworth s Australian mortgage insurance business, including our plans for an IPO of the business and seeks unspecified damages, costs, attorneys fees and such equitable relief as the court may deem proper. The amended consolidated complaint also adds Genworth s current chief financial officer as a defendant, based on the current chief financial officer s alleged conduct in her former capacity as Genworth s controller and principal accounting officer. We moved to dismiss the consolidated action on May 27, 2016. Thereafter, plaintiffs filed a substantially similar second amended complaint which we moved to dismiss on September 16, 2016. The motion is fully briefed and awaiting disposition by the court.

In October 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its current chief financial officer, its former chief financial officer and current and former members of its board of directors were named in a shareholder derivative suit filed by Esther Chopp in the Court of Chancery of the State of Delaware. The case is captioned *Chopp v. McInerney, et al.* The complaint alleges that Genworth s board of directors wrongfully refused plaintiff s demand to commence litigation on behalf of Genworth and asserts claims for breaches of fiduciary duties, waste, contribution and indemnification, and unjust enrichment concerning Genworth s long-term care insurance reserves and concerning Genworth s Australian mortgage insurance business, including our plans for an IPO of the business, and seeks unspecified damages, costs, attorneys fees and such equitable relief as the court may deem proper. We filed a motion to dismiss on November 14, 2016.

In November 2016, Genworth Financial, Inc., its chief executive officer and members of its current board of directors were named in two putative class action lawsuits captioned *Faverman v. Genworth Financial, Inc., et al* and *Ratliff v. Genworth Financial, Inc., et al,* in the United States District Court for the Eastern District of Virginia, Richmond Division. The plaintiffs in those actions allege breach of fiduciary duty and seek to enjoin the acquisition of the publicly owned shares of Genworth Financial, Inc. common stock by Asia Pacific Global Capital Co., Ltd., through its wholly-owned subsidiary, Asia Pacific Global Capital USA Corporation. Both lawsuits seek unspecified damages, costs, attorneys fees, experts fees and such other and further equitable relief as the court may deem proper. On November 15, 2016, the plaintiff in the *Faverman* action filed a voluntary dismissal without prejudice. On November 22, 2016, the plaintiff in the *Ratliff* action filed a voluntary dismissal without prejudice.

In December 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, two former chief financial officers, and two of its insurance subsidiaries were named as defendants in a putative class action lawsuit captioned *Leifer, et al v. Genworth Financial, Inc., et al*, in the United States District Court for the Eastern District of Virginia, Richmond Division. Plaintiffs allege that the defendants financial disclosures and alleged misrepresentations concerning Genworth s long-term care insurance reserves caused harm to current and former long-term care insurance policyholders and seek unspecified damages, declaratory and injunctive relief, attorneys fees, costs and pre-judgment and post-judgment interest. We intend to vigorously defend this action.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

In January 2017, two putative stockholder class action lawsuits, captioned *Rice v. Genworth Financial Incorporated, et al*, and *James v. Genworth Financial, Inc. et al,* were filed in the United States District Court for the Eastern District of Virginia, Richmond Division, against Genworth and its board of directors. A third putative stockholder class action lawsuit captioned *Rosenfeld Family Trust v. Genworth Financial, Inc. et al,* was filed in the United States District Court for the District of Delaware against Genworth and its board of directors. In February 2017, a fourth putative class action lawsuit captioned *Chopp v. Genworth Financial, Inc. et al,* was filed in the United States District Court for the District of Delaware against Genworth and its board of directors and a fifth putative class action lawsuit captioned *Ratliff v. Genworth Financial, Inc. et al,* was filed in the United States District Court for the Eastern District of Virginia, Richmond Division, against Genworth and its board of directors. The complaints in all five actions allege, among other things, that the preliminary proxy statement filed by Genworth with the SEC on December 21, 2016 contains false and/or materially misleading statements and/or omits material information. The complaints assert claims under Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, and seek equitable relief, including declaratory and injunctive relief, and an award of attorneys fees and expenses. On February 2, 2017, the plaintiff in *Rice* filed a motion for a preliminary injunction to enjoin the transaction described in the preliminary proxy. On February 10, 2017, defendants filed an opposition to the preliminary injunction motion in the *Rice* action. Also on February 10, 2017, the plaintiff in *Rosenfeld Family Trust* filed a motion for a preliminary injunction to enjoin the transaction described in the preliminary proxy. On February 14, 2017, defendants filed a motion to transfer the *Rosenfeld Family Trust* action to the Eastern District of Virginia. On February 15, 2017, defendants filed a motion to transfer the *Chopp* action to the Eastern District of Virginia. On February 21, 2017, the parties to the Eastern District of Virginia actions (*Rice, James* and *Ratliff*) reached an agreement in principle to resolve the pending preliminary injunction motion in the Eastern District of Virginia through additional disclosure prior to the March 7, 2017 stockholder vote on the proposed merger transaction. On February 22, 2017, the plaintiffs in the Eastern District of Virginia withdrew their preliminary injunction motion in consideration of the agreed disclosures to be filed in a Form 8-K by February 24, 2017. Also on February 22, 2017, the court in the District of Delaware suspended briefing on the motion for preliminary injunction in the *Rosenfeld Family Trust* action and entered an order transferring the *Rosenfeld Family Trust* and *Chopp* actions to the Eastern District of Virginia.

At this time, other than as noted above, 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. Except as disclosed above, we also are not able to provide an estimate or range of reasonably possible losses related to these matters. Therefore, we cannot ensure that the current investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. In addition, it is possible that related investigations and proceedings may be commenced in the future, and we could become subject to additional unrelated investigations and lawsuits. Increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could adversely affect our business, financial condition and results of operations.

*(b) Commitments*

As of December 31, 2016, we were committed to fund $201 million in limited partnership investments, $39 million in U.S. commercial mortgage loan investments and $34 million in private placement investments.

In connection with the issuance of non-recourse funding obligations by Rivermont I, Genworth entered into a liquidity commitment agreement with the third-party trusts in which the floating rate notes have been deposited. The liquidity agreement may require that Genworth issue to the trusts either a loan or a letter of credit ( LOC ), at maturity of the notes (2050), in the amount equal to the then market value of the assets supporting

334

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

the notes held in the trust. Any loan or LOC issued is an obligation of the trust and shall accrue interest at LIBOR plus a margin. In consideration for entering into this agreement, Genworth received, from Rivermont I, a one-time commitment fee of approximately $2 million. The expected amount of future obligation under this agreement is approximately $15 million based on current projections.

**(22) Changes In Accumulated Other Comprehensive Income (Loss)**

The following tables show the changes in accumulated other comprehensive income (loss), 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 January 1, 2016 | $ 1,254 | $ 2,045 | $ (289) | $ 3,010 |
| OCI before reclassifications | 54 | 120 | 54 | 228 |
| Amounts reclassified from (to) OCI | (57) | (80) | | (137) |
| Current period OCI | (3) | 40 | 54 | 91 |
| Balances as of December 31, 2016 before noncontrolling interests | 1,251 | 2,085 | (235) | 3,101 |
| Less: change in OCI attributable to noncontrolling interests | (11) | | 18 | 7 |
| Balances as of December 31, 2016 | $ 1,262 | $ 2,085 | $ (253) | $ 3,094 |

(1) Net of adjustments to DAC, PVFP, sales inducements and benefit reserves. See note 4 for additional information.
(2) See note 5 for additional information.

| **(Amounts in millions)** | **Net unrealized investment** | **Derivatives qualifying as hedges** (2) | **Foreign currency translation** | **Total** |
|---|---|---|---|---|

| | gains (losses) [1] | | and other adjustments | |
|---|---|---|---|---|
| Balances as of January 1, 2015 | $ 2,453 | $ 2,070 | $ (77) | $ 4,446 |
| OCI before reclassifications | (1,218) | 50 | (530) | (1,698) |
| Amounts reclassified from (to) OCI | 5 | (75) | | (70) |
| Current period OCI | (1,213) | (25) | (530) | (1,768) |
| Balances as of December 31, 2015 before noncontrolling interests | 1,240 | 2,045 | (607) | 2,678 |
| Less: change in OCI attributable to noncontrolling interests | (14) | | (318) | (332) |
| Balances as of December 31, 2015 | $ 1,254 | $ 2,045 | $ (289) | $ 3,010 |

(1) Net of adjustments to DAC, PVFP, sales inducements and benefit reserves. See note 4 for additional information.
(2) See note 5 for additional information.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

| **(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 | 1,595 | 788 | (537) | 1,846 |
| Amounts reclassified from (to) OCI | (12) | (37) | | (49) |
| Current period OCI | 1,583 | 751 | (537) | 1,797 |
| Balances as of December 31, 2014 before noncontrolling interests | 2,509 | 2,070 | (240) | 4,339 |
| Less: change in OCI attributable to noncontrolling interests | 56 | | (163) | (107) |
| Balances as of December 31, 2014 | $ 2,453 | $ 2,070 | $ (77) | $ 4,446 |

(1) Net of adjustments to DAC, PVFP, 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 in the charts above included $(11) million, $(5) million and $(37) million, respectively, net of taxes of $5 million, $3 million and $14 million, respectively, related to a net unrecognized postretirement benefit obligation as of December 31, 2016, 2015 and 2014. The balance also included taxes of $19 million, $63 million and $10 million, respectively, related to foreign currency translation adjustments as of December 31, 2016, 2015 and 2014.

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

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

| (Amounts in millions) | Amount reclassified from accumulated other comprehensive income (loss) Years ended December 31, 2016 | 2015 | 2014 | Affected line item in the consolidated statements of income |
|---|---|---|---|---|
| Net unrealized investment (gains) losses: | | | | |
| Unrealized (gains) losses on investments [1] | $ (88) | $ 7 | $ (19) | Net investment (gains) losses |
| (Provision) benefit for income taxes | 31 | (2) | 7 | (Provision) benefit for income taxes |
| Total | $ (57) | $ 5 | $ (12) | |
| Derivatives qualifying as hedges: | | | | |
| Interest rate swaps hedging assets | $ (112) | $ (85) | $ (63) | Net investment income |
| Interest rate swaps hedging assets | (2) | | (2) | Net investment (gains) losses |
| Interest rate swaps hedging liabilities | | | (1) | Interest expense |
| Inflation indexed swaps | (2) | | 9 | Net investment income |
| Inflation indexed swaps | (7) | | | Net investment (gains) losses |
| Forward bond purchase commitments | | (1) | | Net investment income |
| Forward bond purchase commitments | | (32) | | Net investment (gains) losses |
| (Provision) benefit for income taxes | 43 | 43 | 20 | (Provision) benefit for income taxes |
| Total | $ (80) | $ (75) | $ (37) | |

(1) Amounts exclude adjustments to DAC, PVFP, sales inducements and benefit reserves.

**(23) Noncontrolling Interests**

*Canada*

In July 2009, Genworth Canada, our indirect subsidiary, completed an IPO of its common shares and we beneficially owned 57.5% of the common shares of Genworth Canada through subsidiaries. We currently hold approximately 57.2% of the outstanding common shares of Genworth Canada on a consolidated basis through subsidiaries. In addition, we have the right, exercisable at our discretion, to purchase for cash these common shares of Genworth Canada from our U.S. mortgage insurance companies at the then-current market price. We also have a right of first refusal with respect to the transfer of these common shares of Genworth Canada by our U.S. mortgage insurance companies.

In April 2016, Genworth Canada announced acceptance by the Toronto Stock Exchange of its Notice of Intention to Make a Normal Course Issuer Bid ( NCIB ). Pursuant to the NCIB, Genworth Canada may, if

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

considered advisable, purchase from time to time through May 4, 2017, up to an aggregate of approximately 4.6 million of its issued and outstanding common shares. If Genworth Canada decides to repurchase shares through the NCIB, we intend to participate in the NCIB in order to maintain our overall ownership at its current level.

During 2015, Genworth Canada repurchased 1.4 million of its shares for CAD$50 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage and received $23 million in cash.

During 2014, Genworth Canada repurchased 1.9 million shares for CAD$75 million through a NCIB authorized by its board for up to 4.7 million shares. We participated in the NCIB in order to maintain our overall ownership percentage at its then current level and received $38 million in cash.

In 2016, 2015 and 2014, dividends of $50 million, $49 million and $69 million, respectively, were paid to the noncontrolling interests of Genworth Canada.

*Australia*

On May 15, 2014, Genworth Australia, a holding company for Genworth s Australian mortgage insurance business, priced an IPO of 220,000,000 of its ordinary shares at an IPO price of AUD$2.65 per ordinary share. The offering closed on May 21, 2014. Following completion of the offering, Genworth Financial beneficially owned 66.2% of the ordinary shares of Genworth Australia through subsidiaries. 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.

On May 11, 2015, we sold 92,300,000 of our shares in Genworth Australia at AUD$3.08 per ordinary share. The offering closed on May 15, 2015. Following completion of the offering, Genworth Financial beneficially owns 52.0% of the ordinary shares of Genworth Australia through subsidiaries. The majority of the net proceeds of the offering were distributed to Genworth Holdings. The net proceeds of the offering were approximately $226 million.

On October 30, 2015, Genworth Australia announced its intention to commence an on-market share buy-back program. Pursuant to the program, in November and December 2015, Genworth Australia repurchased 54.6 million of its shares for AUD$150 million. As the majority shareholder, we participated in on-market sales transactions during the buy-back period to maintain our ownership position of 52.0% and received $55 million in cash.

On June 1, 2016, Genworth Australia completed a capital management initiative of AUD$202 million representing a return of capital of AUD$0.34 per share. As a result of the return of capital every one share was converted into 0.8555 shares. We received $76 million for our portion of the capital reduction and our ownership percentage remained at 52.0%.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

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 the changes in ownership interests and the effect on stockholders equity as a result of the IPO of Genworth Australia was as follows for the years ended December 31:

| **(Amounts in millions)** | **2015** | **2014** |
|---|---|---|
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (615) | $ (1,244) |
| Transfers to the noncontrolling interests: | | |
| Decrease in Genworth Financial, Inc. s additional paid-in capital for initial sale of Genworth Australia shares to noncontrolling interests | | (145) |
| Decrease in Genworth Financial, Inc. s additional paid-in capital for additional sale of Genworth Australia shares to noncontrolling interests | (65) | |
| Net transfers to noncontrolling interests | (65) | (145) |
| Change from net loss available to Genworth Financial, Inc. s common stockholders and transfers to noncontrolling interests | $ (680) | $ (1,389) |

In 2016, 2015 and 2014, dividends of $88 million, $108 million and $6 million, respectively, were paid to the noncontrolling interests of Genworth Australia.

**(24) Sale of Businesses**

*European mortgage insurance business*

On May 9, 2016, we completed the sale of our European mortgage insurance business to AmTrust Financial Services, Inc. and received net proceeds of approximately $50 million. As the held-for-sale criteria were satisfied during 2015, we recorded an estimated after-tax loss of approximately $141 million related to the sale, net of taxes of $1 million. In accordance with the accounting guidance for groups of assets that are held-for-sale, we recorded an impairment of $135 million in 2015 to record the carrying value of the business at its fair value, which was based on estimated proceeds less $5 million closing costs. Upon completion of the sale, we recorded an additional pre-tax loss of $9 million and a tax benefit of $27 million primarily related to the reversal of a deferred tax valuation allowance for a total net after-tax gain of $18 million in 2016.

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The major assets and liability categories of our European mortgage insurance business were as follows as of December 31:

| **(Amounts in millions)** | **2016** | **2015** |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ 195 |
| Other invested assets | | 6 |
| Total investments | | 201 |
| Cash and cash equivalents | | 28 |
| Accrued investment income | | 3 |
| Reinsurance recoverable | | 21 |
| Other assets | | 14 |
| Assets held for sale | | 267 |
| Fair value less closing costs impairment | | (140) |
| Total assets held for sale | $ | $ 127 |
| Liabilities | | |
| Liability for policy and contract claims | $ | $ 56 |
| Unearned premiums | | 58 |
| Other liabilities | | 12 |
| Deferred tax liability | | 1 |
| Liabilities held for sale | $ | $ 127 |

Deferred tax liabilities that result in future taxable or deductible amounts to the remaining consolidated group have been reflected in liabilities of continuing operations and not reflected in liabilities held for sale.

*Lifestyle protection insurance*

On December 1, 2015, we completed the sale of our lifestyle protection insurance business and received approximately $493 million with net proceeds of approximately $400 million. During 2015, we recorded an after-tax loss of approximately $381 million, net of taxes of $155 million. In 2016, we finalized the closing balance sheet and purchase price adjustments and recorded an after-tax loss of $29 million which primarily related to tax items and claim liabilities.

340

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

Summary operating results of discontinued operations were as follows for the years ended December 31:

| **(Amounts in millions)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Revenues: | | | |
| Premiums | $ | $ 627 | $ 731 |
| Net investment income | | 74 | 100 |
| Net investment gains (losses) | | | 2 |
| Policy fees and other income | | | 3 |
| Total revenues | | 701 | 836 |
| Benefits and expenses: | | | |
| Benefits and other changes in policy reserves | | 182 | 202 |
| Acquisition and operating expenses | | 396 | 447 |
| Amortization of deferred acquisition costs and intangibles | | 83 | 118 |
| Interest expense | | 29 | 46 |
| Total benefits and expenses | | 690 | 813 |
| Income before income taxes and loss on sale | | 11 | 23 |
| Provision (benefit) for income taxes | | 37 | (134) |
| Income (loss) before loss on sale | | (26) | 157 |
| Loss on sale, net of taxes | (29) | (381) | |
| Income (loss) from discontinued operations, net of taxes | $ (29) | $ (407) | $ 157 |

We retained liabilities for taxes and certain claims and sales practices that occurred while we owned the lifestyle protection insurance business. We have established our current best estimates for these liabilities, where appropriate; however, there may be future adjustments to these estimates.

In connection with the settlement of the U.K. pension plan as part of the sale of our lifestyle protection insurance business, we purchased a group annuity contract. The amounts associated with the group annuity contract were held in a third-party trust for the benefit of the participants until individual annuity contracts were transferred to the participants on September 1, 2016. As a result, the U.K. pension plan was completely settled in September 2016.

*Life insurance business*

On June 24, 2016, we completed the sale of our term life insurance new business platform to Pacific Life Insurance Company for a purchase price of $29 million. The sale primarily included a building located in Lynchburg, Virginia and software. As a result of this transaction, we recorded a pre-tax gain of $12 million and taxes of $4 million.

**(25) 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

341

Table of Contents

GENWORTH FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016, 2015 and 2014

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.

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 December 31, 2016 and 2015 and the condensed consolidating income statement information, condensed consolidating comprehensive income statement information and condensed consolidating cash flow statement information for the years ended December 31, 2016, 2015 and 2014.

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.

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 CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating balance sheet information as of December 31, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments: | | | | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ | $ 60,772 | $ (200) | $ 60,572 |
| Equity securities available-for-sale, at fair value | | | 632 | | 632 |
| Commercial mortgage loans | | | 6,111 | | 6,111 |
| Restricted commercial mortgage loans related to securitization entities | | | 129 | | 129 |
| Policy loans | | | 1,742 | | 1,742 |
| Other invested assets | | 105 | 1,966 | | 2,071 |
| Restricted other invested assets related to securitization entities, at fair value | | | 312 | | 312 |
| Investments in subsidiaries | 12,730 | 12,308 | | (25,038) | |
| Total investments | 12,730 | 12,413 | 71,664 | (25,238) | 71,569 |
| Cash and cash equivalents | | 998 | 1,786 | | 2,784 |
| Accrued investment income | | | 663 | (4) | 659 |
| Deferred acquisition costs | | | 3,571 | | 3,571 |
| Intangible assets and goodwill | | | 348 | | 348 |
| Reinsurance recoverable | | | 17,755 | | 17,755 |
| Other assets | 9 | 134 | 530 | | 673 |
| Intercompany notes receivable | | 84 | 67 | (151) | |
| Deferred tax assets | 28 | | (28) | | |
| Separate account assets | | | 7,299 | | 7,299 |
| Total assets | $ 12,767 | $ 13,629 | $ 103,655 | $ (25,393) | $ 104,658 |
| Liabilities and stockholders equity | | | | | |
| Liabilities: | | | | | |
| Future policy benefits | $ | $ | $ 37,063 | $ | $ 37,063 |
| Policyholder account balances | | | 25,662 | | 25,662 |
| Liability for policy and contract claims | | | 9,256 | | 9,256 |
| Unearned premiums | | | 3,378 | | 3,378 |

| | | | | | |
|---|---|---|---|---|---|
| Other liabilities | 39 | 301 | 2,581 | (5) | 2,916 |
| Intercompany notes payable | 84 | 267 | | (351) | |
| Borrowings related to securitization entities | | | 74 | | 74 |
| Non-recourse funding obligations | | | 310 | | 310 |
| Long-term borrowings | | 3,716 | 464 | | 4,180 |
| Deferred tax liability | | (816) | 869 | | 53 |
| Separate account liabilities | | | 7,299 | | 7,299 |
| Total liabilities | 123 | 3,468 | 86,956 | (356) | 90,191 |
| Equity: | | | | | |
| Common stock | 1 | | | | 1 |
| Additional paid-in capital | 11,962 | 9,097 | 20,252 | (29,349) | 11,962 |
| Accumulated other comprehensive income (loss) | 3,094 | 3,135 | 3,116 | (6,251) | 3,094 |
| Retained earnings | 287 | (2,071) | (8,792) | 10,863 | 287 |
| Treasury stock, at cost | (2,700) | | | | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 12,644 | 10,161 | 14,576 | (24,737) | 12,644 |
| Noncontrolling interests | | | 2,123 | (300) | 1,823 |
| Total equity | 12,644 | 10,161 | 16,699 | (25,037) | 14,467 |
| Total liabilities and equity | $ 12,767 | $ 13,629 | $ 103,655 | $ (25,393) | $ 104,658 |

343

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating balance sheet information as of December 31, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments: | | | | | |
| Fixed maturity securities available-for-sale, at fair value | $ | $ 150 | $ 58,247 | $ (200) | $ 58,197 |
| Equity securities available-for-sale, at fair value | | | 310 | | 310 |
| Commercial mortgage loans | | | 6,170 | | 6,170 |
| Restricted commercial mortgage loans related to securitization entities | | | 161 | | 161 |
| Policy loans | | | 1,568 | | 1,568 |
| Other invested assets | | 114 | 2,198 | (3) | 2,309 |
| Restricted other invested assets related to securitization entities, at fair value | | | 413 | | 413 |
| Investments in subsidiaries | 12,814 | 12,989 | | (25,803) | |
| Total investments | 12,814 | 13,253 | 69,067 | (26,006) | 69,128 |
| Cash and cash equivalents | | 1,124 | 4,841 | | 5,965 |
| Accrued investment income | | | 657 | (4) | 653 |
| Deferred acquisition costs | | | 4,398 | | 4,398 |
| Intangible assets and goodwill | | | 357 | | 357 |
| Reinsurance recoverable | | | 17,245 | | 17,245 |
| Other assets | | 199 | 323 | (2) | 520 |
| Intercompany notes receivable | | 2 | 458 | (460) | |
| Deferred tax assets | 25 | 1,038 | (908) | | 155 |
| Separate account assets | | | 7,883 | | 7,883 |
| Assets held for sale | | | 127 | | 127 |
| Total assets | $ 12,839 | $ 15,616 | $ 104,448 | $ (26,472) | $ 106,431 |
| Liabilities and stockholders equity | | | | | |
| Liabilities: | | | | | |
| Future policy benefits | $ | $ | $ 36,475 | $ | $ 36,475 |
| Policyholder account balances | | | 26,209 | | 26,209 |
| Liability for policy and contract claims | | | 8,095 | | 8,095 |

| | | | | | |
|---|---|---|---|---|---|
| Unearned premiums | | | 3,308 | | 3,308 |
| Other liabilities | 13 | 279 | 2,722 | (10) | 3,004 |
| Intercompany notes payable | 2 | 658 | | (660) | |
| Borrowings related to securitization entities | | | 179 | | 179 |
| Non-recourse funding obligations | | | 1,920 | | 1,920 |
| Long-term borrowings | | 4,078 | 492 | | 4,570 |
| Deferred tax liability | | | 24 | | 24 |
| Separate account liabilities | | | 7,883 | | 7,883 |
| Liabilities held for sale | | | 127 | | 127 |
| Total liabilities | 15 | 5,015 | 87,434 | (670) | 91,794 |
| Equity: | | | | | |
| Common stock | 1 | | | | 1 |
| Additional paid-in capital | 11,949 | 9,097 | 17,007 | (26,104) | 11,949 |
| Accumulated other comprehensive income (loss) | 3,010 | 3,116 | 3,028 | (6,144) | 3,010 |
| Retained earnings | 564 | (1,612) | (5,134) | 6,746 | 564 |
| Treasury stock, at cost | (2,700) | | | | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 12,824 | 10,601 | 14,901 | (25,502) | 12,824 |
| Noncontrolling interests | | | 2,113 | (300) | 1,813 |
| Total equity | 12,824 | 10,601 | 17,014 | (25,802) | 14,637 |
| Total liabilities and equity | $ 12,839 | $ 15,616 | $ 104,448 | $ (26,472) | $ 106,431 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating income statement information for the year ended December 31, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 4,160 | $ | $ 4,160 |
| Net investment income | (3) | 2 | 3,175 | (15) | 3,159 |
| Net investment gains (losses) | | (1) | 73 | | 72 |
| Policy fees and other income | | (8) | 986 | | 978 |
| Total revenues | (3) | (7) | 8,394 | (15) | 8,369 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 5,245 | | 5,245 |
| Interest credited | | | 696 | | 696 |
| Acquisition and operating expenses, net of deferrals | 153 | 38 | 1,082 | | 1,273 |
| Amortization of deferred acquisition costs and intangibles | | | 498 | | 498 |
| Interest expense | 1 | 278 | 73 | (15) | 337 |
| Total benefits and expenses | 154 | 316 | 7,594 | (15) | 8,049 |
| Income (loss) from continuing operations before income taxes and equity in loss of subsidiaries | (157) | (323) | 800 | | 320 |
| Provision (benefit) for income taxes | (47) | 71 | 334 | | 358 |
| Equity in loss of subsidiaries | (166) | (53) | | 219 | |
| Income (loss) from continuing operations | (276) | (447) | 466 | 219 | (38) |
| Loss from discontinued operations, net of taxes | (1) | (12) | (16) | | (29) |
| Net income (loss) | (277) | (459) | 450 | 219 | (67) |
| Less: net income attributable to noncontrolling interests | | | 210 | | 210 |
| Net income (loss) available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (459) | $ 240 | $ 219 | $ (277) |

345

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating income statement information for the year ended December 31, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 4,579 | $ | $ 4,579 |
| Net investment income | (3) | 1 | 3,154 | (14) | 3,138 |
| Net investment gains (losses) | | 43 | (118) | | (75) |
| Policy fees and other income | | (32) | 940 | (2) | 906 |
| Total revenues | (3) | 12 | 8,555 | (16) | 8,548 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 5,149 | | 5,149 |
| Interest credited | | | 720 | | 720 |
| Acquisition and operating expenses, net of deferrals | 32 | 2 | 1,275 | | 1,309 |
| Amortization of deferred acquisition costs and intangibles | | | 966 | | 966 |
| Interest expense | | 307 | 128 | (16) | 419 |
| Total benefits and expenses | 32 | 309 | 8,238 | (16) | 8,563 |
| Income (loss) from continuing operations before income taxes and equity in loss of subsidiaries | (35) | (297) | 317 | | (15) |
| Provision (benefit) for income taxes | (8) | (103) | 102 | | (9) |
| Equity in loss of subsidiaries | (579) | (463) | | 1,042 | |
| Income (loss) from continuing operations | (606) | (657) | 215 | 1,042 | (6) |
| Loss from discontinued operations, net of taxes | (9) | | (398) | | (407) |
| Net loss | (615) | (657) | (183) | 1,042 | (413) |
| Less: net income attributable to noncontrolling interests | | | 202 | | 202 |
| | $ (615) | $ (657) | $ (385) | $ 1,042 | $ (615) |

Net loss available to Genworth Financial, Inc. s
common stockholders

346

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating income statement information for the year ended December 31, 2014:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Premiums | $ | $ | $ 4,700 | $ | $ 4,700 |
| Net investment income | (2) | | 3,159 | (15) | 3,142 |
| Net investment gains (losses) | | 4 | (26) | | (22) |
| Policy fees and other income | | (4) | 914 | (1) | 909 |
| Total revenues | (2) | | 8,747 | (16) | 8,729 |
| Benefits and expenses: | | | | | |
| Benefits and other changes in policy reserves | | | 6,418 | | 6,418 |
| Interest credited | | | 737 | | 737 |
| Acquisition and operating expenses, net of deferrals | 21 | | 1,117 | | 1,138 |
| Amortization of deferred acquisition costs and intangibles | | | 453 | | 453 |
| Goodwill impairment | | | 849 | | 849 |
| Interest expense | | 321 | 128 | (16) | 433 |
| Total benefits and expenses | 21 | 321 | 9,702 | (16) | 10,028 |
| Loss from continuing operations before income taxes and equity in loss of subsidiaries | (23) | (321) | (955) | | (1,299) |
| Provision (benefit) for income taxes | (8) | (112) | 30 | (4) | (94) |
| Equity in loss of subsidiaries | (1,229) | (1,147) | | 2,376 | |
| Loss from continuing operations | (1,244) | (1,356) | (985) | 2,380 | (1,205) |
| Income from discontinued operations, net of taxes | | | 157 | | 157 |
| Net loss | (1,244) | (1,356) | (828) | 2,380 | (1,048) |
| | | | 196 | | 196 |

| | | | | | |
|---|---|---|---|---|---|
| Less: net income attributable to noncontrolling interests | | | | | |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (1,244) | $ (1,356) | $ (1,024) | $ 2,380 | $ (1,244) |

347

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating comprehensive income statement information for the year ended December 31, 2016:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net income (loss) | $ (277) | $ (459) | $ 450 | $ 219 | $ (67) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 17 | 14 | 7 | (32) | 6 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (9) | (6) | (9) | 15 | (9) |
| Derivatives qualifying as hedges | 40 | 39 | 43 | (82) | 40 |
| Foreign currency translation and other adjustments | 36 | (28) | 54 | (8) | 54 |
| Total other comprehensive income (loss) | 84 | 19 | 95 | (107) | 91 |
| Total comprehensive income (loss) | (193) | (440) | 545 | 112 | 24 |
| Less: comprehensive income (loss) attributable to noncontrolling interests | | | 217 | | 217 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (193) | $ (440) | $ 328 | $ 112 | $ (193) |

The following table presents the condensed consolidating comprehensive income statement information for the year ended December 31, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (615) | $ (657) | $ (183) | $ 1,042 | $ (413) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | (1,181) | (1,158) | (1,210) | 2,340 | (1,209) |
| Net unrealized gains (losses) on other-than- temporarily impaired securities | (4) | (4) | (4) | 8 | (4) |

| | | | | | |
|---|---|---|---|---|---|
| Derivatives qualifying as hedges | (25) | (24) | (19) | 43 | (25) |
| Foreign currency translation and other adjustments | (250) | (171) | (530) | 421 | (530) |
| Total other comprehensive income (loss) | (1,460) | (1,357) | (1,763) | 2,812 | (1,768) |
| Total comprehensive income (loss) | (2,075) | (2,014) | (1,946) | 3,854 | (2,181) |
| Less: comprehensive income (loss) attributable to noncontrolling interests | | | (106) | | (106) |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (2,075) | $ (2,014) | $ (1,840) | $ 3,854 | $ (2,075) |

348

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating comprehensive income statement information for the year ended December 31, 2014:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net loss | $ (1,244) | $ (1,356) | $ (828) | $ 2,380 | $ (1,048) |
| Other comprehensive income (loss), net of taxes: | | | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,539 | 1,510 | 1,573 | (3,049) | 1,573 |
| Net unrealized gains (losses) on other-than- temporarily impaired securities | 10 | 11 | 10 | (21) | 10 |
| Derivatives qualifying as hedges | 751 | 751 | 794 | (1,545) | 751 |
| Foreign currency translation and other adjustments | (339) | (273) | (537) | 612 | (537) |
| Total other comprehensive income (loss) | 1,961 | 1,999 | 1,840 | (4,003) | 1,797 |
| Total comprehensive income (loss) | 717 | 643 | 1,012 | (1,623) | 749 |
| Less: comprehensive income (loss) attributable to noncontrolling interests | | | 32 | | 32 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ 717 | $ 643 | $ 980 | $ (1,623) | $ 717 |

349

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating cash flow statement information for the year ended December 31, 2016:

| **(Amounts in millions)** | **Parent Guarantor** | **Issuer** | **All Other Subsidiaries** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ (277) | $ (459) | $ 450 | $ 219 | $ (67) |
| Less loss from discontinued operations, net of taxes | 1 | 12 | 16 | | 29 |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | | | | |
| Equity in loss from subsidiaries | 166 | 53 | | (219) | |
| Dividends from subsidiaries | | 250 | (250) | | |
| (Gain) loss on sale of businesses | | 1 | (27) | | (26) |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | | 4 | (142) | | (138) |
| Net investment (gains) losses | | 1 | (73) | | (72) |
| Charges assessed to policyholders | | | (782) | | (782) |
| Acquisition costs deferred | | | (150) | | (150) |
| Amortization of deferred acquisition costs and intangibles | | | 498 | | 498 |
| Deferred income taxes | (6) | 233 | (82) | | 145 |
| Net increase in trading securities, held-for-sale investments and derivative instruments | | 5 | 704 | | 709 |
| Stock-based compensation expense | 23 | | 9 | | 32 |
| Change in certain assets and liabilities: | | | | | |
| Accrued investment income and other assets | (9) | 98 | (445) | (2) | (358) |
| Insurance reserves | | | 1,315 | | 1,315 |
| Current tax liabilities | | 42 | (10) | | 32 |
| Other liabilities, policy and contract claims and other policy-related balances | 20 | (63) | 723 | 5 | 685 |
| Net cash from operating activities | (82) | 177 | 1,754 | 3 | 1,852 |
| Cash flows from investing activities: | | | | | |
| Proceeds from maturities and repayments of investments: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Fixed maturity securities | | 150 | 3,739 | | 3,889 |
| Commercial mortgage loans | | | 700 | | 700 |
| Restricted commercial mortgage loans related to securitization entities | | | 32 | | 32 |
| Proceeds from sales of investments: | | | | | |
| Fixed maturity and equity securities | | | 5,629 | | 5,629 |
| Purchases and originations of investments: | | | | | |
| Fixed maturity and equity securities | | | (11,529) | | (11,529) |
| Commercial mortgage loans | | | (649) | | (649) |
| Other invested assets, net | | | (151) | (3) | (154) |
| Policy loans, net | | | (77) | | (77) |
| Intercompany notes receivable | | (82) | | 82 | |
| Proceeds from sale of businesses, net of cash transferred | | 1 | 38 | | 39 |
| Net cash from investing activities | | 69 | (2,268) | 79 | (2,120) |
| Cash flows from financing activities: | | | | | |
| Deposits to universal life and investment contracts | | | 1,349 | | 1,349 |
| Withdrawals from universal life and investment contracts | | | (2,004) | | (2,004) |
| Redemption and repurchase of non-recourse funding obligations | | | (1,620) | | (1,620) |
| Repayment and repurchase of long-term debt | | (326) | (36) | | (362) |
| Repayment of borrowings related to securitization entities | | | (42) | | (42) |
| Proceeds from intercompany notes payable | 82 | | | (82) | |
| Return of capital to noncontrolling interests | | | (70) | | (70) |
| Dividends paid to noncontrolling interests | | | (138) | | (138) |
| Other, net | | (46) | 2 | | (44) |
| Net cash from financing activities | 82 | (372) | (2,559) | (82) | (2,931) |
| Effect of exchange rate changes on cash and cash equivalents | | | (10) | | (10) |
| Net change in cash and cash equivalents | | (126) | (3,083) | | (3,209) |
| Cash and cash equivalents at beginning of period | | 1,124 | 4,869 | | 5,993 |
| Cash and cash equivalents at end of period | $ | $ 998 | $ 1,786 | $ | $ 2,784 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating cash flow statement information for the year ended December 31, 2015:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net loss | $ (615) | $ (657) | $ (183) | $ 1,042 | $ (413) |
| Less loss from discontinued operations, net of taxes | 9 | | 398 | | 407 |
| Adjustments to reconcile net loss to net cash from operating activities: | | | | | |
| Equity in loss from subsidiaries | 579 | 463 | | (1,042) | |
| Dividends from subsidiaries | | 530 | (530) | | |
| Loss on sale of businesses | | | 141 | | 141 |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | | | (106) | | (106) |
| Net investment (gains) losses | | (43) | 118 | | 75 |
| Charges assessed to policyholders | | | (788) | | (788) |
| Acquisition costs deferred | | | (293) | | (293) |
| Amortization of deferred acquisition costs and intangibles | | | 966 | | 966 |
| Deferred income taxes | (4) | (65) | (127) | | (196) |
| Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments | | 41 | (280) | | (239) |
| Stock-based compensation expense | 21 | | (5) | | 16 |
| Change in certain assets and liabilities: | | | | | |
| Accrued investment income and other assets | 3 | 13 | (123) | 1 | (106) |
| Insurance reserves | | | 1,847 | | 1,847 |
| Current tax liabilities | (3) | 18 | (30) | | (15) |
| Other liabilities, policy and contract claims and other policy-related balances | 2 | (38) | 328 | 1 | 293 |
| Cash from operating activities held for sale | | | 2 | | 2 |
| Net cash from operating activities | (8) | 262 | 1,335 | 2 | 1,591 |
| Cash flows from investing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Proceeds from maturities and repayments of investments: | | | | | |
| Fixed maturity securities | | 1 | 4,540 | | 4,541 |
| Commercial mortgage loans | | | 882 | | 882 |
| Restricted commercial mortgage loans related to securitization entities | | | 41 | | 41 |
| Proceeds from sales of investments: | | | | | |
| Fixed maturity and equity securities | | | 4,391 | | 4,391 |
| Purchases and originations of investments: | | | | | |
| Fixed maturity and equity securities | | | (9,750) | | (9,750) |
| Commercial mortgage loans | | | (956) | | (956) |
| Other invested assets, net | | (100) | 277 | (2) | 175 |
| Policy loans, net | | | 25 | | 25 |
| Intercompany notes receivable | 9 | 265 | (63) | (211) | |
| Capital contributions to subsidiaries | | (25) | 25 | | |
| Proceeds from sale of businesses, net of cash transferred | | | 273 | | 273 |
| Payments for businesses purchased, net of cash acquired | | (197) | 197 | | |
| Cash from investing activities held for sale | | | (26) | | (26) |
| Net cash from investing activities | 9 | (56) | (144) | (213) | (404) |
| Cash flows from financing activities: | | | | | |
| Deposits to universal life and investment contracts | | | 2,257 | | 2,257 |
| Withdrawals from universal life and investment contracts | | | (2,144) | | (2,144) |
| Redemption and repurchase of non-recourse funding obligations | | | (61) | | (61) |
| Proceeds from the issuance of long-term debt | | | 150 | | 150 |
| Repayment and repurchase of long-term debt | | (50) | (70) | | (120) |
| Repayment of borrowings related to securitization entities | | | (36) | | (36) |
| Proceeds from intercompany notes payable | 2 | 54 | (267) | 211 | |
| Repurchase of subsidiary shares | | | (68) | | (68) |
| Dividends paid to noncontrolling interests | | | (157) | | (157) |
| Proceeds from the sale of subsidiary shares to noncontrolling interests | | | 226 | | 226 |
| Other, net | (3) | (39) | (56) | | (98) |
| Cash from financing activities held for sale | | | 9 | | 9 |
| Net cash from financing activities | (1) | (35) | (217) | 211 | (42) |
| Effect of exchange rate changes on cash and cash equivalents | | | (70) | | (70) |
| Net change in cash and cash equivalents | | 171 | 904 | | 1,075 |
| Cash and cash equivalents at beginning of period | | 953 | 3,965 | | 4,918 |

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents at end of period | | 1,124 | 4,869 | | 5,993 |
| Less cash and cash equivalents held for sale at end of period | | | 28 | | 28 |
| Cash and cash equivalents of continuing operations at end of period | $ | $ 1,124 | $ 4,841 | $ | $ 5,965 |

Table of Contents

**GENWORTH FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2016, 2015 and 2014**

The following table presents the condensed consolidating cash flow statement information for the year ended December 31, 2014:

| (Amounts in millions) | Parent Guarantor | Issuer | All Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net loss | $ (1,244) | $ (1,356) | $ (828) | $ 2,380 | $ (1,048) |
| Less income from discontinued operations, net of taxes | | | (157) | | (157) |
| Adjustments to reconcile net loss to net cash from operating activities: | | | | | |
| Equity in loss from subsidiaries | 1,229 | 1,147 | | (2,376) | |
| Dividends from subsidiaries | | 630 | (630) | | |
| Amortization of fixed maturity securities discounts and premiums and limited partnerships | | | (111) | | (111) |
| Net investment (gains) losses | | (4) | 26 | | 22 |
| Charges assessed to policyholders | | | (777) | | (777) |
| Acquisition costs deferred | | | (383) | | (383) |
| Amortization of deferred acquisition costs and intangibles | | | 453 | | 453 |
| Goodwill impairment | | | 849 | | 849 |
| Deferred income taxes | 4 | (146) | (195) | (4) | (341) |
| Net increase in trading securities, held-for-sale investments and derivative instruments | | 1 | 205 | | 206 |
| Stock-based compensation expense | 21 | | 7 | | 28 |
| Change in certain assets and liabilities: | | | | | |
| Accrued investment income and other assets | (4) | (9) | (151) | 1 | (163) |
| Insurance reserves | | | 2,497 | | 2,497 |
| Current tax liabilities | (2) | (77) | (117) | | (196) |
| Other liabilities, policy and contract claims and other policy-related balances | 11 | 91 | 1,421 | (6) | 1,517 |
| Cash from operating activities held for sale | | | 42 | | 42 |
| Net cash from operating activities | 15 | 277 | 2,151 | (5) | 2,438 |
| Cash flows from investing activities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Proceeds from maturities and repayments of investments: | | | | | |
| Fixed maturity securities | | 150 | 5,048 | | 5,198 |
| Commercial mortgage loans | | | 765 | | 765 |
| Restricted commercial mortgage loans related to securitization entities | | | 32 | | 32 |
| Proceeds from sales of investments: | | | | | |
| Fixed maturity and equity securities | | | 2,386 | | 2,386 |
| Purchases and originations of investments: | | | | | |
| Fixed maturity and equity securities | | (150) | (9,038) | | (9,188) |
| Commercial mortgage loans | | | (967) | | (967) |
| Other invested assets, net | | | (40) | 5 | (35) |
| Policy loans, net | | | 12 | | 12 |
| Intercompany notes receivable | (1) | (19) | (2) | 22 | |
| Capital contributions to subsidiaries | (12) | | 12 | | |
| Cash from investing activities held for sale | | | (39) | | (39) |
| Net cash from investing activities | (13) | (19) | (1,831) | 27 | (1,836) |
| Cash flows from financing activities: | | | | | |
| Deposits to universal life and investment contracts | | | 2,993 | | 2,993 |
| Withdrawals from universal life and investment contracts | | | (2,588) | | (2,588) |
| Redemption and repurchase of non-recourse funding obligations | | | (42) | | (42) |
| 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 | | | (32) | | (32) |
| Proceeds from intercompany notes payable | | 3 | 19 | (22) | |
| Repurchase of subsidiary shares | | | (28) | | (28) |
| Dividends paid to noncontrolling interests | | | (75) | | (75) |
| Proceeds from the sale of subsidiary shares to noncontrolling interests | | | 517 | | 517 |
| Other, net | (2) | (42) | 14 | | (30) |
| Cash from financing activities held for sale | | | (33) | | (33) |
| Net cash from financing activities | (2) | (524) | 753 | (22) | 205 |
| Effect of exchange rate changes on cash and cash equivalents | | | (103) | | (103) |
| Net change in cash and cash equivalents | | (266) | 970 | | 704 |
| Cash and cash equivalents at beginning of period | | 1,219 | 2,995 | | 4,214 |
| Cash and cash equivalents at end of period | | 953 | 3,965 | | 4,918 |
| Less cash and cash equivalents held for sale at end of period | | | 273 | | 273 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents of continuing operations at end of period | $ | | $ | 953 | $ | 3,692 | $ | | $ | 4,645 |

For information on significant restrictions on dividends by, or loans or advances from, subsidiaries of Genworth Financial and Genworth Holdings, and the restricted net assets of those subsidiaries, see note 18.

Table of Contents

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Genworth Financial, Inc.:

Under date of February 27, 2017, we reported on the consolidated balance sheets of Genworth Financial, Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016, which are included herein. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules included herein. These financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Richmond, Virginia

February 27, 2017

Table of Contents

**Schedule I**

**Genworth Financial, Inc.**

**Summary of Investments Other Than Investments in Related Parties**

**(Amounts in millions)**

As of December 31, 2016, the amortized cost or cost, fair value and carrying value of our invested assets were as follows:

| Type of investment | Amortized cost or cost | Fair value | Carrying value |
|---|---|---|---|
| Fixed maturity securities: | | | |
| Bonds: | | | |
| U.S. government, agencies and authorities | $ 5,439 | $ 6,036 | $ 6,036 |
| State and political subdivisions | 2,515 | 2,647 | 2,647 |
| Non-U.S. government | 2,024 | 2,107 | 2,107 |
| Public utilities | 5,077 | 5,519 | 5,519 |
| All other corporate bonds | 41,959 | 44,263 | 44,263 |
| Total fixed maturity securities | 57,014 | 60,572 | 60,572 |
| Equity securities | 628 | 632 | 632 |
| Commercial mortgage loans | 6,111 | xxxxx | 6,111 |
| Restricted commercial mortgage loans related to securitization entities | 129 | xxxxx | 129 |
| Policy loans | 1,742 | xxxxx | 1,742 |
| Other invested assets [1] | 1,405 | xxxxx | 2,071 |
| Restricted other invested assets related to securitization entities | 312 | xxxxx | 312 |
| Total investments | $ 67,341 | xxxxx | $ 71,569 |

(1) The amount shown in the consolidated balance sheet for other invested assets differs from amortized cost or cost presented, as other invested assets include certain assets with a carrying amount that differs from amortized cost or cost.

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Schedule II**

**Genworth Financial, Inc.**

**(Parent Company Only)**

**Balance Sheets**

**(Amounts in millions)**

| | December 31, | |
|---|---|---|
| | **2016** | **2015** |
| Assets | | |
| Investments in subsidiaries | $ 12,730 | $ 12,814 |
| Deferred tax asset | 28 | 25 |
| Other assets | 9 | |
| Total assets | $ 12,767 | $ 12,839 |
| Liabilities and stockholders equity | | |
| Liabilities: | | |
| Other liabilities | $ 39 | $ 13 |
| Intercompany notes payable | 84 | 2 |
| Total liabilities | 123 | 15 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Common stock | 1 | 1 |
| Additional paid-in capital | 11,962 | 11,949 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized investment gains (losses): | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 1,253 | 1,236 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | 9 | 18 |
| Net unrealized investment gains (losses) | 1,262 | 1,254 |
| Derivatives qualifying as hedges | 2,085 | 2,045 |
| Foreign currency translation and other adjustments | (253) | (289) |
| Total accumulated other comprehensive income (loss) | 3,094 | 3,010 |
| Retained earnings | 287 | 564 |
| Treasury stock, at cost | (2,700) | (2,700) |
| Total Genworth Financial, Inc. s stockholders equity | 12,644 | 12,824 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 12,767 | $ 12,839 |

See Notes to Schedule II

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Schedule II**

**Genworth Financial, Inc.**

**(Parent Company Only)**

**Statements of Income**

**(Amounts in millions)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Revenues: | | | |
| Net investment income | $ (3) | $ (3) | $ (2) |
| Total revenues | (3) | (3) | (2) |
| Expenses: | | | |
| Acquisition and operating expenses, net of deferrals | 153 | 32 | 21 |
| Interest expense | 1 | | |
| Total expenses | 154 | 32 | 21 |
| Loss before income taxes and equity in loss of subsidiaries | (157) | (35) | (23) |
| Benefit from income taxes | (47) | (8) | (8) |
| Equity in loss of subsidiaries | (166) | (579) | (1,229) |
| Loss from discontinued operations, net of taxes | (1) | (9) | |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |

See Notes to Schedule II

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Schedule II**

**Genworth Financial, Inc.**

**(Parent Company Only)**

**Statements of Comprehensive Income**

**(Amounts in millions)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |
| Other comprehensive income (loss), net of taxes: | | | |
| Net unrealized gains (losses) on securities not other-than-temporarily impaired | 17 | (1,181) | 1,539 |
| Net unrealized gains (losses) on other-than-temporarily impaired securities | (9) | (4) | 10 |
| Derivatives qualifying as hedges | 40 | (25) | 751 |
| Foreign currency translation and other adjustments | 36 | (250) | (339) |
| Total other comprehensive income (loss) | 84 | (1,460) | 1,961 |
| Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders | $ (193) | $ (2,075) | $ 717 |

See Notes to Schedule II

See Accompanying Report of Independent Registered Public Accounting Firm

357

Table of Contents

**Schedule II**

**Genworth Financial, Inc.**

**(Parent Company Only)**

**Statements of Cash Flows**

**(Amounts in millions)**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Cash flows from operating activities: | | | |
| Net loss available to Genworth Financial, Inc. s common stockholders | $ (277) | $ (615) | $ (1,244) |
| Less loss from discontinued operations, net of taxes | 1 | 9 | |
| Adjustments to reconcile net loss available to Genworth Financial, Inc. s common stockholders to net cash from operating activities: | | | |
| Equity in loss from subsidiaries | 166 | 579 | 1,229 |
| Deferred income taxes | (6) | (4) | 4 |
| Stock-based compensation expense | 23 | 21 | 21 |
| Change in certain assets and liabilities: | | | |
| Accrued investment income and other assets | (9) | 3 | (4) |
| Current tax liabilities | | (3) | (2) |
| Other liabilities and other policy-related balances | 20 | 2 | 11 |
| Net cash from operating activities | (82) | (8) | 15 |
| Cash flows from investing activities: | | | |
| Intercompany notes receivable | | 9 | (1) |
| Capital contribution paid to subsidiaries | | | (12) |
| Net cash from investing activities | | 9 | (13) |
| Cash flows from financing activities: | | | |
| Other, net | | (3) | (2) |
| Intercompany notes payable | 82 | 2 | |
| Net cash from financing activities | 82 | (1) | (2) |
| Effect of exchange rate changes on cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of year | | | |
| Cash and cash equivalents at end of year | $ | $ | $ |

See Notes to Schedule II

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Schedule II**

**Genworth Financial, Inc.**

**(Parent Company Only)**

**Notes to Schedule II**

**Years Ended December 31, 2016, 2015 and 2014**

**(1) Organization and Purpose**

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

Genworth Financial is a holding company whose subsidiaries offer mortgage and long-term care insurance products and service life insurance, as well as annuities and other investment products.

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement ) with Asia Pacific Global Capital Co., Ltd. ( the Parent ), a limited liability company incorporated in the People s Republic of China, and Asia Pacific Global Capital USA Corporation ( Merger Sub ), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide ). China Oceanwide has agreed to acquire all of our outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. The transaction is subject to approval by our stockholders as well as other closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international markets. Both parties are engaging with regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to expect the transaction to close by mid-2017.

**(2) Commitments**

Genworth Financial provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding senior notes and the holders of the senior notes, on an unsecured unsubordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, each outstanding series of senior notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the senior notes indenture in respect of such senior notes. Genworth Financial also provides a full and unconditional guarantee to the trustee of Genworth Holdings outstanding subordinated notes and the holders of the subordinated notes, on an unsecured subordinated basis, of the full and punctual payment of the principal of, premium, if any and interest on, and all other amounts payable under, the outstanding subordinated notes, and the full and punctual payment of all other amounts payable by Genworth Holdings under the subordinated notes indenture in respect of the subordinated notes. Genworth Financial also provides a full and unconditional guarantee of Genworth Holdings obligations associated with Rivermont Life Insurance Company I and the Tax Matters Agreement.

**(3) Income Taxes**

As of December 31, 2016 and 2015, Genworth Financial had a deferred tax asset of $28 million and $25 million, respectively, primarily comprised of share-based compensation. These amounts are undiscounted pursuant to the applicable rules governing deferred taxes. Genworth Financial s current income tax receivable was zero as of December 31, 2016 and 2015. Net cash received for taxes was $41 million, $1 million and $23 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Table of Contents

**Schedule III**

**Genworth Financial, Inc.**

**Supplemental Insurance Information**

**(Amounts in millions)**

| Segment | Deferred Acquisition Costs | Future Policy Benefits | Policyholder Account Balances | Liability for Policy and Contract Claims | Unearned Premiums |
|---|---|---|---|---|---|
| December 31, 2016 | | | | | |
| U.S. Mortgage Insurance | $ 28 | $ | $ | $ 635 | $ 342 |
| Canada Mortgage Insurance | 121 | | | 112 | 1,595 |
| Australia Mortgage Insurance | 31 | | | 211 | 850 |
| U.S. Life Insurance | 3,149 | 37,060 | 22,285 | 8,276 | 586 |
| Runoff | 242 | 3 | 3,377 | 15 | 5 |
| Corporate and Other | | | | 7 | |
| Total | $ 3,571 | $ 37,063 | $ 25,662 | $ 9,256 | $ 3,378 |
| December 31, 2015 | | | | | |
| U.S. Mortgage Insurance | $ 22 | $ | $ | $ 849 | $ 258 |
| Canada Mortgage Insurance | 108 | | | 87 | 1,460 |
| Australia Mortgage Insurance | 35 | | | 165 | 963 |
| U.S. Life Insurance | 3,963 | 36,471 | 23,009 | 6,969 | 621 |
| Runoff | 270 | 4 | 3,200 | 18 | 6 |
| Corporate and Other | | | | 7 | |
| Total | $ 4,398 | $ 36,475 | $ 26,209 | $ 8,095 | $ 3,308 |

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Schedule III Continued**

**Genworth Financial, Inc.**

**Supplemental Insurance Information**

**(Amounts in millions)**

| Segment | Premium Revenue | Net Investment Income | Interest Credited and Benefits and Other Changes in Policy Reserves | Amortization of Deferred Acquisition Costs | Other Operating Expenses | Premiums Written |
|---|---|---|---|---|---|---|
| December 31, 2016 | | | | | | |
| U.S. Mortgage Insurance | $ 660 | $ 63 | $ 160 | $ 9 | $ 170 | $ 744 |
| Canada Mortgage Insurance | 481 | 126 | 104 | 37 | 97 | 576 |
| Australia Mortgage Insurance | 337 | 94 | 113 | 13 | 107 | 231 |
| U.S. Life Insurance | 2,670 | 2,726 | 5,387 | 394 | 695 | 2,644 |
| Runoff | | 147 | 173 | 28 | 70 | |
| Corporate and Other | 12 | 3 | 4 | | 488 | 13 |
| Total | $ 4,160 | $ 3,159 | $ 5,941 | $ 481 | $ 1,627 | $ 4,208 |
| December 31, 2015 | | | | | | |
| U.S. Mortgage Insurance | $ 602 | $ 58 | $ 222 | $ 7 | $ 158 | $ 682 |
| Canada Mortgage Insurance | 466 | 130 | 96 | 35 | 85 | 641 |
| Australia Mortgage Insurance | 357 | 114 | 81 | 16 | 110 | 328 |
| U.S. Life Insurance | 3,128 | 2,701 | 5,288 | 816 | 832 | 3,115 |
| Runoff | 1 | 138 | 168 | 28 | 78 | 1 |
| Corporate and Other | 25 | (3) | 14 | | 529 | 27 |
| Total | $ 4,579 | $ 3,138 | $ 5,869 | $ 902 | $ 1,792 | $ 4,794 |
| December 31, 2014 | | | | | | |
| U.S. Mortgage Insurance | $ 578 | $ 59 | $ 357 | $ 5 | $ 142 | $ 628 |
| Canada Mortgage Insurance | 515 | 155 | 102 | 35 | 114 | 583 |
| Australia Mortgage Insurance | 406 | 144 | 78 | 15 | 113 | 509 |
| U.S. Life Insurance | 3,169 | 2,665 | 6,438 | 291 | 1,648 | 3,172 |
| Runoff | 3 | 129 | 156 | 37 | 87 | 2 |
| Corporate and Other | 29 | (10) | 24 | | 386 | 19 |
| Total | $ 4,700 | $ 3,142 | $ 7,155 | $ 383 | $ 2,490 | $ 4,913 |

See Accompanying Report of Independent Registered Public Accounting Firm

Table of Contents

**Item 9. Changes In and Disagreements With Accountants On Accounting and Financial Disclosure**
None.

**Item 9A. Controls and Procedures**
**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2016, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

**Management s Annual Report On Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our independent auditor, KPMG LLP, a registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting. This attestation report appears below.

/s/ Thomas J. McInerney
**Thomas J. McInerney**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

/s/ Kelly L. Groh
**Kelly L. Groh**
**Executive Vice President and**
**Chief Financial Officer**
**(Principal Financial Officer)**
February 27, 2017

362

Table of Contents

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Genworth Financial, Inc.:

We have audited Genworth Financial, Inc. s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Genworth Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Genworth Financial, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 27, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Richmond, Virginia

February 27, 2017

Table of Contents

### Changes in Internal Control Over Financial Reporting During the Quarter Ended December 31, 2016

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

None.

Table of Contents

## PART III

**Item 10. Directors, Executive Officers and Corporate Governance**
The following table sets forth certain information concerning our executive officers:

| Name | Age | Positions |
|---|---|---|
| Thomas J. McInerney | 60 | President and Chief Executive Officer, Director |
| Kelly L. Groh | 48 | Executive Vice President and Chief Financial Officer |
| Kevin D. Schneider | 55 | Executive Vice President and Chief Operating Officer |
| Ward E. Bobitz | 52 | Executive Vice President and General Counsel |
| Lori M. Evangel | 54 | Executive Vice President and Chief Risk Officer |
| Michael S. Laming | 65 | Executive Vice President Human Resources |
| Scott J. McKay | 55 | Senior Vice President Chief Strategy Officer |
| Daniel J. Sheehan IV | 51 | Executive Vice President Chief Investment Officer |

**Executive Officers**

The following sets forth certain biographical information with respect to our executive officers and director listed above.

**Thomas J. McInerney** has been our President and Chief Executive Officer and a director since January 2013. Before joining our company, Mr. McInerney had served as a Senior Advisor to the Boston Consulting Group from June 2011 to December 2012, providing consulting and advisory services to leading insurance and financial services companies in the United States and Canada. From October 2009 to December 2010, Mr. McInerney was a member of ING Groep s Management Board for Insurance, where he was the Chief Operating Officer of ING s insurance and investment management business worldwide. Prior to that, he served in a variety of senior roles with ING Groep NV after serving in many leadership positions with Aetna, where he began his career as an insurance underwriter in June 1978. Mr. McInerney is a member of the Board of the American Council of Life Insurers and the Financial Services Roundtable. Mr. McInerney received a B.A. in Economics from Colgate University and an M.B.A. from the Tuck School of Business at Dartmouth College.

**Kelly L. Groh** has been our Executive Vice President and Chief Financial Officer since October 2015. Ms. Groh also served as our Principal Accounting Officer from May 2012 to April 2016, the Company s Vice President and Controller from May 2012 to November 2015, and as Acting Chief Financial Officer of our U.S. life insurance businesses from August 2014 through January 2015. Ms. Groh served in the Company s Investment organization as Senior Vice President of Investment Portfolio Management from December 2010 to May 2012. From August 2008 to December 2010, she served as the Chief Financial Officer of the Company s previous Retirement and Protection segment. From July 2004 to August 2008, she served as Senior Vice President, Finance, which role included responsibility for varying periods of time over the Financial Planning and Analysis and the Investor Relations functions. From March 1996 until the Company s initial public offering ( IPO ) in 2004, Ms. Groh served in various finance capacities for predecessor companies, including GE Financial Assurance Holdings, Inc. Prior to joining the Company, Ms. Groh was employed by Price Waterhouse, LLP (now PriceWaterhouseCoopers, LLP) from September 1990 to March 1996. Ms. Groh received a B.A. in Business Administration (Accounting) from the University of Washington and graduated from The Executive Program at the Darden Graduate School of Business at the University of Virginia. Ms. Groh is a certified public accountant (CPA) and a chartered global management accountant (CGMA).

**Kevin D. Schneider** has been our Executive Vice President and Chief Operating Officer since January 2016 and is responsible for all the daily operations and operating performance of our businesses. Prior to that, he was Executive Vice President Global Mortgage Insurance from May 2015 to January 2016 (Executive Vice President-Genworth from May 2012 to May 2015) responsible for our global mortgage insurance businesses. From July 2008 until May 2012, Mr. Schneider was Senior Vice President Genworth with continuing

365

**Table of Contents**

responsibility for the Company s U.S. mortgage insurance business. Prior thereto, Mr. Schneider served as the President and Chief Executive Officer of the Company s U.S. mortgage insurance business since the completion of the Company s IPO in May 2004. Prior to the IPO, he was a Senior Vice President and Chief Commercial Officer of General Electric Mortgage Insurance Corporation since April 2003. From January 2003 to April 2003, Mr. Schneider was the Chief Quality Officer for GE Commercial Finance Americas. From September 2001 to December 2002, he was a Quality Leader for GE Capital Corporate. From April 1998 to September 2001, Mr. Schneider was an Executive Vice President with GE Capital Rail Services. Prior thereto, he had been with GATX Corp. where he was a Vice President Sales from November 1994 to April 1998 and a Regional Manager from October 1992 to November 1994. From July 1984 to October 1992, Mr. Schneider was with Ryder System where he held various positions. Mr. Schneider received a B.S. degree in Industrial Labor Relations from Cornell University and an M.B.A. from the Kellogg Business School.

**Ward E. Bobitz** has been our Executive Vice President and General Counsel since January 2015. Prior to that, he served as a Vice President and Assistant Secretary, responsible for corporate transactions and regulatory matters, since the completion of our IPO in May 2004. Prior to the IPO, he served as a Vice President and Assistant Secretary of GE Financial Assurance Holdings, Inc. ( GEFAHI ) since October 1997. From September 1993 to October 1997, Mr. Bobitz was with the law firm of LeBoeuf, Lamb, Greene, and MacRae. Mr. Bobitz received a B.A. in Economics from Columbia University and a J.D. from the University of Michigan Law School. He is a member of the New York Bar and the Virginia Bar.

**Lori M. Evangel** has been our Executive Vice President and Chief Risk Officer since January 2014. Prior to joining the company, she was Managing Director and Chief Risk Officer, Global Investments for Aflac, Inc. from January 2013 to December 2013. From November 2008 through July 2012, Ms. Evangel served as Senior Vice President and Enterprise Risk Officer at MetLife, Inc., having served as Senior Vice President since joining MetLife in May 2007. Prior thereto, Ms. Evangel acted as Managing Director and Group Head, Portfolio Management and Market Risk for MBIA Insurance Corporation from July 2004 to April 2007 and served in multiple positions for MBIA prior to that time. Ms. Evangel began her career at Moody s Investors Service in 1986. She received her B.A. in Political Science from Middlebury College in 1984 and her MBA in Finance from State University of New York in 1986.

**Michael S. Laming** has been our Executive Vice President Human Resources since December 2013. Prior thereto, he served as our Senior Vice President Human Resources since the completion of our IPO in May 2004. Prior to the IPO, he was a Senior Vice President of GE Insurance, a business unit of GE Capital, since August 2001 and a Vice President of GE since April 2003. From July 1996 to August 2001, Mr. Laming was a Senior Vice President at GEFAHI and its predecessor companies. Prior thereto, he held a broad range of human resource positions in operating units of GE and at GE corporate headquarters. He graduated from the GE Manufacturing Management Program. Mr. Laming received both a B.S. in Business Administration and a Masters of Organization Development from Bowling Green State University.

**Scott J. McKay** has been our Executive Vice President Chief Strategy Officer since January 2016. Prior to that, he was Executive Vice President Chief Information Officer from January 2015 to January 2016 and leader of Business and Product Strategy for the U.S. life insurance businesses from March 2013 to January 2015. Mr. McKay served as our Senior Vice President Chief Information Officer from January 2009 to January 2015. He had served as our Senior Vice President Operations & Quality and Chief Information Officer from August 2004 to December 2008. Prior thereto, he was Senior Vice President Operations & Quality since the completion of our IPO in May 2004 to August 2004. Prior to the IPO, he was the Senior Vice President, Operations & Quality of GEFAHI since December 2002. From July 1993 to December 2002, Mr. McKay served in various information technology related positions at GEFAHI s subsidiaries, including Chief Technology Officer, and Chief Information Officer of Federal Home Life Assurance Company. Prior thereto, he was Officer and Director of Applications for United Pacific Life Insurance

Company from July 1992 to July 1993, and an IT consultant for Sycomm Systems and Data Executives, Inc. from January 1985 to July 1992. Mr. McKay received a B.S. in Computer Science from West Chester University of Pennsylvania.

366

Table of Contents

**Daniel J. Sheehan IV** has been our Executive Vice President Chief Investment Officer since December 2013. Prior to that, he served as our Senior Vice President Chief Investment Officer since April 2012. From January 2009 to April 2012, he served as our Vice President with responsibilities that included oversight of the Company s insurance investment portfolios. From January 2008 through December 2008, Mr. Sheehan had management responsibilities of the Company s portfolio management team, including fixed-income trading. From December 1997 through December 2007, Mr. Sheehan served in various capacities with the Company and/or its predecessor including roles with oversight responsibilities for the investments real estate team, as risk manager of the insurance portfolios and as risk manager of the portfolio management team. Prior to joining our Company, Mr. Sheehan had been with Sun Life of Canada from 1993 to 1997 as a Property Investment Officer in the Real Estate Investments group. Prior thereto, he was with Massachusetts Laborers Benefit Fund from 1987 to 1993, as an auditor and auditing supervisor. Mr. Sheehan graduated from Harvard University with a BA in Economics and later received an MBA in Finance from Babson College.

From time to time, we or our subsidiaries are subject to court orders, judgments or decrees enjoining us or the subsidiaries from engaging in certain business practices, and sometimes such orders, judgments or decrees are also applicable to our affiliates, officers, employees and certain other related parties, including certain of our executive officers.

***Other Information***

We will provide the remaining information that is responsive to this Item 10 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions Election of Directors, Corporate Governance, Board of Directors and Committees, Section 16(a) Beneficial Ownership Reporting Compliance, and possibly elsewhere therein. That information is incorporated into this Item 10 by reference.

**Item 11. Executive Compensation**

We will provide information that is responsive to this Item 11 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions Board of Directors and Committees, Compensation Discussion and Analysis, Report of the Management Development and Compensation Committee (which report shall be deemed furnished with this Form 10-K, and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934), Executive Compensation, and possibly elsewhere therein. That information is incorporated into this Item 11 by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We will provide information that is responsive to this Item 12 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the caption Information Relating to Directors, Director Nominees, Executive Officers and Significant Stockholders, Equity Compensation Plans and possibly elsewhere therein. That information is incorporated into this Item 12 by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

We will provide information that is responsive to this Item 13 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions Corporate Governance, Certain Relationships and Transactions, and possibly elsewhere therein. That information is incorporated into this Item 13 by reference.

367

Table of Contents

**Item 14. Principal Accountant Fees and Services**

We will provide information that is responsive to this Item 14 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the caption Independent Registered Public Accounting Firm, and possibly elsewhere therein. That information is incorporated into this Item 14 by reference.

Table of Contents

# PART IV

## Item 15. Exhibits and Financial Statement Schedules

a. Documents filed as part of this report.

1. Financial Statements (see Item 8. Financial Statements and Supplementary Data)



2. Financial Statement Schedules



3. Exhibits

| Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of April 1, 2013, among Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Sub XLVI, Inc. (renamed Genworth Financial, Inc.) and Sub XLII, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on April 1, 2013) |
| 2.2 | Offer Management Agreement, dated as of April 23, 2014, among Genworth Mortgage Insurance Australia Limited, Genworth Financial, Inc., Genworth Financial Mortgage Insurance Pty Limited, Genworth Financial Mortgage Indemnity Limited and the joint lead managers named therein (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on May 21, 2014) |
| 2.3 | Irrevocable Offer Deed, dated as of July 22, 2015, by AXA S.A. (incorporated by reference to Exhibit 2.1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 2.4 | |

| | |
|---|---|
| | Letter Agreement, dated as of July 22, 2015, by and among Genworth Financial, Inc., Brookfield Life and Annuity Insurance Company Limited, European Group Financing Company Limited, Genworth Financial International Holdings, Inc. and AXA S.A. (incorporated by reference to Exhibit 2.2 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 2.5 | Sale and Purchase Agreement, dated as of September 17, 2015, by and among Genworth Financial, Inc., Brookfield Life and Annuity Insurance Company Limited, European Group Financing Company Limited, Genworth Financial International Holdings, Inc. and AXA S.A. (incorporated by reference to Exhibit 2.3 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |

Table of Contents

| Number | Description |
|---|---|
| 2.6 | Master Agreement, dated as of September 30, 2015, by and between Genworth Life and Annuity Insurance Company and Protective Life Insurance Company (incorporated by reference to Exhibit 2.4 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 2.7 | Agreement and Plan of Merger, dated October 21, 2016, by and among the Genworth Financial, Inc., Asia Pacific Global Capital Co., Ltd. and Asia Pacific Global Capital USA Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on October 24, 2016) |
| 3.1 | Amended and Restated Certificate of Incorporation of Genworth Financial, Inc., dated as of April 1, 2013 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 1, 2013) |
| 3.2 | Amended and Restated Bylaws of Genworth Financial, Inc., dated as of October 5, 2015 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on October 5, 2015) |
| 4.1 | Specimen Class A Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012) |
| 4.2 | Indenture, dated as of November 14, 2006, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on November 14, 2006) |
| 4.3 | First Supplemental Indenture, dated as of November 14, 2006, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on November 14, 2006) |
| 4.4 | Second Supplemental Indenture, dated as of April 1, 2013, among Genworth Holdings, Inc., Genworth Financial, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on April 1, 2013) |
| 4.5 | Third Supplemental Indenture, dated as of March 18, 2016, among Genworth Holdings, Inc., Genworth Financial, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, amending the Indenture, dated as of November 14, 2006, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on March 22, 2016) |
| 4.6 | Indenture, dated as of June 15, 2004, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York (successor to JPMorgan Chase Bank), as Trustee (incorporated by reference to Exhibit 4.10 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2004) |
| 4.7 | Supplemental Indenture No. 1, dated as of June 15, 2004, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York (successor to JPMorgan Chase Bank), as Trustee (incorporated by reference to Exhibit 4.11 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2004) |
| 4.8 | |

Supplemental Indenture No. 4, dated as of May 22, 2008, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on May 22, 2008)

370

**Table of Contents**

| Number | Description |
|---|---|
| 4.9 | Supplemental Indenture No. 5, dated as of December 8, 2009, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on December 8, 2009) |
| 4.10 | Supplemental Indenture No. 6, dated as of June 24, 2010, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 24, 2010) |
| 4.11 | Supplemental Indenture No. 7, dated as of November 22, 2010, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on November 22, 2010) |
| 4.12 | Supplemental Indenture No. 8, dated as of March 25, 2011, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 25, 2011) |
| 4.13 | Supplemental Indenture No. 9, dated as of April 1, 2013, among Genworth Holdings, Inc., Genworth Financial, Inc., as guarantor, and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on April 1, 2013) |
| 4.14 | Supplemental Indenture No. 10, dated as of August 8, 2013, among Genworth Holdings, Inc., Genworth Financial, Inc., as guarantor, and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on August 8, 2013) |
| 4.15 | Supplemental Indenture No. 11, dated as of December 10, 2013, among Genworth Holdings, Inc., Genworth Financial, Inc., as guarantor, and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on December 10, 2013) |
| 4.16 | Supplemental Indenture No. 12, dated as of March 18, 2016, among Genworth Holdings, Inc., Genworth Financial, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, amending the Indenture, dated as of June 15, 2004, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and JPMorgan Chase Bank, N.A. (succeeded by The Bank of New York Mellon Trust Company, N.A.), as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 22, 2016) |
| 10.1 | Master Agreement, dated July 7, 2009, among Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Genworth Financial Mortgage Insurance Company Canada, Genworth MI Canada Inc. and Brookfield Life Assurance Company Limited (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on July 10, 2009) |
| 10.1.1 | Amendment No.1 to Master Agreement, dated April 1, 2013, among Genworth MI Canada Inc., Brookfield Life Assurance Company Limited, Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Genworth Financial Mortgage Insurance Company Canada and Sub XLVI, Inc. (renamed Genworth Financial, Inc.) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on April 1, 2013) |

**Table of Contents**

| Number | Description |
| --- | --- |
| 10.1.2 | Assignment and Amending Agreement for Master Agreement, dated October 1, 2015, among Genworth MI Canada Inc., Brookfield Life Assurance Company Limited, Genworth Holdings, Inc., Genworth Financial, Inc., Genworth Financial Mortgage Insurance Company Canada and Genworth Financial International Holdings, LLC (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 10.2 | Shareholder Agreement, dated July 7, 2009, among Genworth MI Canada Inc., Brookfield Life Assurance Company Limited and Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on July 10, 2009) |
| 10.2.1 | Assignment and Assumption Agreement for Shareholder Agreement, dated August 9, 2011, among Genworth MI Canada Inc., Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Brookfield Life Assurance Company Limited, Genworth Mortgage Holdings, LLC and Genworth Mortgage Insurance Corporation of North Carolina (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2011) |
| 10.2.2 | Assignment and Assumption Agreement for Shareholder Agreement, dated August 9, 2011, among Genworth MI Canada Inc., Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Brookfield Life Assurance Company Limited, Genworth Mortgage Holdings, LLC and Genworth Mortgage Insurance Corporation (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the period ended September 30, 2011) |
| 10.2.3 | Assignment and Assumption Agreement for Shareholder Agreement, dated August 10, 2011, among Genworth MI Canada Inc., Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Brookfield Life Assurance Company Limited, Genworth Mortgage Insurance Corporation and Genworth Residential Mortgage Assurance Corporation (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the period ended September 30, 2011) |
| 10.2.4 | Amending Agreement, dated April 1, 2013, among Genworth MI Canada Inc., Brookfield Life Assurance Company Limited, Genworth Financial, Inc. (renamed Genworth Holdings, Inc.), Genworth Mortgage Holdings, LLC, Genworth Mortgage Insurance Corporation, Genworth Mortgage Insurance Corporation of North Carolina, Genworth Financial International Holdings, Inc., Genworth Residential Mortgage Assurance Corporation and Sub XLVI, Inc. (renamed Genworth Financial, Inc.) (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on April 1, 2013) |
| 10.2.5 | Assignment and Assumption Agreement for Shareholder Agreement, dated July 11, 2014, among Genworth MI Canada Inc., Genworth Mortgage Insurance Corporation and Genworth Residential Mortgage Assurance Corporation (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the period ended June 30, 2014) |
| 10.2.6 | Assignment and Amending Agreement for Shareholder Agreement, dated October 1, 2015, among Genworth MI Canada Inc., Brookfield Life Assurance Company Limited, Genworth Holdings, Inc., Genworth Financial, Inc., Genworth Mortgage Insurance Corporation, Genworth Mortgage Insurance Corporation of North Carolina and Genworth Financial International Holdings, LLC (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 10.3 | Master Agreement, dated April 23, 2014, between Genworth Financial, Inc. and Genworth Mortgage Insurance Company Australia Limited (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended June 30, 2014) |

372

| Number | Description |
|---|---|
| 10.4 | Shareholder Agreement, dated May 21, 2014, among Genworth Mortgage Insurance Australia Limited, Brookfield Life Assurance Company Limited, Genworth Financial International Holdings, Inc. and Genworth Financial, Inc. (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the period ended June 30, 2014) |
| 10.4.1 | Accession and Retirement Deed, dated September 15, 2015, among Genworth Financial International Holdings, Inc., Genworth Holdings, Inc., Brookfield Life Assurance Company Limited, Genworth Financial, Inc. and Genworth Mortgage Insurance Australia Limited (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 10.4.2 | Accession and Retirement Deed, dated October 1, 2015, among Genworth Financial International Holdings, LLC, Genworth Holdings, Inc., Brookfield Life Assurance Company Limited, Genworth Financial, Inc. and Genworth Mortgage Insurance Australia Limited (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the period ended September 30, 2015) |
| 10.5 | Restated Tax Matters Agreement, dated as of February 1, 2006, by and among General Electric Company, General Electric Capital Corporation, GE Financial Assurance Holdings, Inc., GEI, Inc. and Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2006) |
| 10.5.1 | Consent and Agreement to Become a Party to Restated Tax Matters Agreement, dated April 1, 2013, among Genworth Financial, Inc., Genworth Holdings, Inc., General Electric Company, General Electric Capital Corporation, GE Financial Assurance Holdings, Inc. and GEI, Inc. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on April 1, 2013) |
| 10.6 | Canadian Tax Matters Agreement, dated as of May 24, 2004, among General Electric Company, General Electric Capital Corporation, GECMIC Holdings Inc., GE Capital Mortgage Insurance Company (Canada) (now known as Genworth Financial Mortgage Insurance Company Canada) and Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) (incorporated by reference to Exhibit 10.47 to the Current Report on Form 8-K filed on June 7, 2004) |
| 10.7 | European Tax Matters Agreement, dated as of May 24, 2004, among General Electric Company, General Electric Capital Corporation and Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) (incorporated by reference to Exhibit 10.57 to the Current Report on Form 8-K filed on June 7, 2004) |
| 10.8 | Australian Tax Matters Agreement, dated as of May 24, 2004, between Genworth Financial, Inc. (renamed Genworth Holdings, Inc.) and General Electric Capital Corporation (incorporated by reference to Exhibit 10.58 to the Current Report on Form 8-K field on June 7, 2004) |
| 10.9 | Coinsurance Agreement, dated as of April 15, 2004, by and between GE Life and Annuity Assurance Company (now known as Genworth Life and Annuity Insurance Company) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (No. 333-112009) (the Registration Statement )) |
| 10.9.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.6.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.10 | Coinsurance Agreement, dated as of April 15, 2004, by and between Federal Home Life Insurance Company (merged with and into Genworth Life and Annuity Insurance Company effective January 1, 2007) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.12 to the Registration Statement) |

373

Table of Contents

| Number | Description |
|---|---|
| 10.10.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.7.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.11 | Coinsurance Agreement, dated as of April 15, 2004, by and between General Electric Capital Assurance Company (now known as Genworth Life Insurance Company) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.13 to the Registration Statement) |
| 10.11.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.8.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.12 | Coinsurance Agreement, dated as of April 15, 2004, by and between GE Capital Life Assurance Company of New York (now known as Genworth Life Insurance Company of New York) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.14 to the Registration Statement) |
| 10.12.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.9.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.12.2 | Third Amendment to Coinsurance Agreement (incorporated by reference to Exhibit 10.11.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |
| 10.13 | Coinsurance Agreement, dated as of April 15, 2004, by and between American Mayflower Life Insurance Company of New York (merged with and into Genworth Life Insurance Company of New York effective January 1, 2007) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.15 to the Registration Statement) |
| 10.13.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.10.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.13.2 | Third Amendment to Coinsurance Agreement (incorporated by reference to Exhibit 10.12.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |
| 10.14 | Coinsurance Agreement, dated as of April 15, 2004, between First Colony Life Insurance Company (merged with and into Genworth Life and Annuity Insurance Company, effective January 1, 2007) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.54 to the Registration Statement) |
| 10.14.1 | Amendments to Coinsurance Agreement (incorporated by reference to Exhibit 10.11.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.15 | Retrocession Agreement, dated as of April 15, 2004, by and between General Electric Capital Assurance Company (now known as Genworth Life Insurance Company) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.16 to the Registration Statement) |
| 10.15.1 | Amendments to Retrocession Agreement (incorporated by reference to Exhibit 10.12.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.16 | Retrocession Agreement, dated as of April 15, 2004, by and between GE Capital Life Assurance Company of New York (now known as Genworth Life Insurance Company of New York) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.17 to the Registration Statement) |
| 10.16.1 | Amendments to Retrocession Agreement (incorporated by reference to Exhibit 10.13.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |

| | |
|---|---|
| 10.16.2 | Third Amendment to Retrocession Agreement (incorporated by reference to Exhibit 10.15.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |

Table of Contents

| Number | Description |
| --- | --- |
| 10.17 | Reinsurance Agreement, dated as of April 15, 2004, by and between GE Life and Annuity Assurance Company (now known as Genworth Life and Annuity Insurance Company) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.18 to the Registration Statement) |
| 10.17.1 | First Amendment to Reinsurance Agreement (incorporated by reference to Exhibit 10.14.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.17.2 | Second Amendment to Reinsurance Agreement (incorporated by reference to Exhibit 10.15.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012) |
| 10.18 | Reinsurance Agreement, dated as of April 15, 2004, by and between GE Capital Life Assurance Company of New York (now known as Genworth Life Insurance Company of New York) and Union Fidelity Life Insurance Company (incorporated by reference to Exhibit 10.19 to the Registration Statement) |
| 10.18.1 | First Amendment to Reinsurance Agreement (incorporated by reference to Exhibit 10.15.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.18.2 | Second Amendment to Reinsurance Agreement (incorporated by reference to Exhibit 10.17.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |
| 10.18.3 | Third Amendment to Reinsurance Agreement (incorporated by reference to Exhibit 10.16.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012) |
| 10.19 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Life Insurance Company, General Electric Capital Assurance Company (now known as Genworth Life Insurance Company) and The Bank of New York (incorporated by reference to Exhibit 10.48 to the Registration Statement) |
| 10.20 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Life Insurance Company, Federal Home Life Insurance Company (merged with and into Genworth Life and Annuity Insurance Company, effective January 1, 2007) and The Bank of New York (incorporated by reference to Exhibit 10.51 to the Registration Statement) |
| 10.21 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Life Insurance Company, First Colony Life Insurance Company (merged with and into Genworth Life and Annuity Insurance Company, effective January 1, 2007) and The Bank of New York (incorporated by reference to Exhibit 10.53 to the Registration Statement) |
| 10.22 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Insurance Company, American Mayflower Life Insurance Company of New York (merged with and into Genworth Life Insurance Company of New York, effective January 1, 2007) and The Bank of New York (incorporated by reference to Exhibit 10.49 to the Registration Statement) |
| 10.23 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Life Insurance Company, GE Life and Annuity Assurance Company (now known as Genworth Life and Annuity Insurance Company) and The Bank of New York (incorporated by reference to Exhibit 10.50 to the Registration Statement) |
| 10.24 | Trust Agreement, dated as of April 15, 2004, among Union Fidelity Life Insurance Company, GE Capital Life Assurance Company of New York (now known as Genworth Life Insurance Company of New York) and The Bank of New York (incorporated by reference to Exhibit 10.52 to the Registration Statement) |

375

Table of Contents

| Number | Description |
|---|---|
| 10.25 | Trust Agreement, dated as of December 1, 2009, among Union Fidelity Life Insurance Company, Genworth Life Insurance Company of New York and Deutsche Bank Trust Company Americas (incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |
| 10.26 | Capital Maintenance Agreement, dated as of January 1, 2004, by and between Union Fidelity Life Insurance Company and General Electric Capital Corporation (incorporated by reference to Exhibit 10.21 to the Registration Statement) |
| 10.26.1 | Amendment No. 1 to Capital Maintenance Agreement, dated as of December 1, 2013, by and between General Electric Capital Corporation and Union Fidelity Life Insurance Company (received by Genworth Financial, Inc. with all required signatures for effectiveness from General Electric Capital Corporation and Union Fidelity Life Insurance Company in February 2015) (incorporated by reference to Exhibit 10.27.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 |
| 10.27 | Replacement Capital Covenant, dated November 14, 2006 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 14, 2006) |
| 10.28 | Assignment and Assumption Agreement, dated as of April 1, 2013, between Genworth Holdings, Inc. and Genworth Financial, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 1, 2013) |
| 10.29§ | 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.56 to the Registration Statement) |
| 10.29.1§ | First Amendment to the Genworth Financial, Inc. 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2007) |
| 10.29.2§ | Second Amendment to the Genworth Financial, Inc. 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 18, 2009) |
| 10.30§ | Amended & Restated Sub-Plan under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan: Genworth Financial Canada Stock Savings Plan (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |
| 10.31§ | Sub-Plan under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan: Genworth Financial, Inc. U.K. Share Incentive Plan (incorporated by reference to Exhibit 10.52.7 to the Quarterly Report on Form 10-Q for the period ended September 30, 2006) |
| 10.32§ | Sub-Plan under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan: Genworth Financial U.K. Share Option Plan (incorporated by reference to Exhibit 10.29 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2007) |
| 10.33§ | Form of Deferred Stock Unit Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.56.1 to the Current Report on Form 8-K filed on December 30, 2004) |
| 10.33.1§ | Form of Deferred Stock Unit Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (for grants after January 1, 2010) (incorporated by reference to Exhibit 10.34.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009) |

| | |
|---|---|
| 10.33.2§ | Form of Stock Option Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the period ended September 30, 2007) |

376

Table of Contents

| Number | Description |
|---|---|
| 10.33.3§ | Form of Stock Appreciation Rights Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the period ended September 30, 2007) |
| 10.33.4§ | Form of Stock Appreciation Rights with a Maximum Share Value Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the period ended March 31, 2011) |
| 10.33.5§ | Form of Restricted Stock Unit Award Agreement under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.30.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2007) |
| 10.34§ | 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 21, 2012) |
| 10.34.1§ | Form of Stock Appreciation Rights with a Maximum Share Value Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.35.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2014) |
| 10.34.2§ | Form of Restricted Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.35.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2014) |
| 10.34.3§ | Form of Deferred Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the period ended June 30, 2012) |
| 10.34.4§ | Form of Stock Appreciation Rights with a Maximum Share Value Executive Officer Retention Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on November 1, 2012) |
| 10.34.5§ | Stock Appreciation Rights with a Maximum Share Value CEO New Hire Grant under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.32.5 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2012) |
| 10.34.6§ | Form of Performance Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.33.6 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2013) |
| 10.34.7§ | Form of Performance Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2015) |
| 10.34.8§ | Form of Stock Appreciation Rights with a Maximum Share Value Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the period ended June 30, 2015) |
| 10.35§ | Amendment to Stock Options and Stock Appreciation Rights under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan and the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the period ended June 30, 2013) |
| 10.36§ | |

| | |
|---|---|
| | Policy Regarding Personal Use of Non-Commercial Aircraft by Executive Officers (incorporated by reference to Exhibit 10 to the Current Report on Form 8-K filed on July 21, 2006) |
| 10.37§ | Amended and Restated Genworth Financial, Inc. Leadership Life Insurance Plan (incorporated by reference to Exhibit 10.37 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |

377

Table of Contents

| Number | Description |
|---|---|
| 10.38§ | Genworth Financial, Inc. Executive Life Program (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 6, 2005) |
| 10.38.1§ | Amendment to the Genworth Financial, Inc. Executive Life Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the period ended March 31, 2007) |
| 10.38.2§ | Amendment to the Genworth Financial, Inc. Executive Life Program (incorporated by reference to Exhibit 10.38.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008) |
| 10.39§ | Amendment to Stock Options and Stock Appreciation Rights under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan and the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended June 30, 2015) |
| 10.40§ | Form of Cash Retention Award Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 15, 2015) |
| 10.41§ | Amended and Restated Genworth Financial, Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.47 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015) |
| 10.42§ | Amended and Restated Genworth Financial, Inc. Retirement and Savings Restoration Plan (incorporated by reference to Exhibit 10.48 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015) |
| 10.43§ | Amended and Restated Genworth Financial, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.49 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015) |
| 10.44§ | Amended and Restated Genworth Financial, Inc. 2014 Change of Control Plan (incorporated by reference to Exhibit 10.50 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015) |
| 10.45§ | Amended and Restated Genworth Financial, Inc. 2015 Key Employee Severance Plan (incorporated by reference to Exhibit 10.51 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015)) |
| 10.46§ | Form of Restricted Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2016) |
| 10.47§ | Form of 2016-2018 Performance Stock Unit Award Agreement under the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2016) |
| 12 | Statement of Ratio of Income to Fixed Charges (filed herewith) |
| 21 | Subsidiaries of the registrant (filed herewith) |
| 23 | Consent of KPMG LLP (filed herewith) |
| 24 | Powers of Attorney (filed herewith) |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Thomas J. McInerney (filed herewith) |

| | | |
|---|---|---|
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 herewith) | Kelly L. Groh (filed |

378

Table of Contents

| Number | Description |
|---|---|
| 32.1 | Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Thomas J. McInerney (filed herewith) |
| 32.2 | Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Kelly L. Groh (filed herewith) |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

§ Management contract or compensatory plan or arrangement.

Neither Genworth Financial, Inc., nor any of its consolidated subsidiaries, has outstanding any instrument with respect to its long-term debt, other than those filed as an exhibit to this Annual Report, under which the total amount of securities authorized exceeds 10% of the total assets of Genworth Financial, Inc. and its subsidiaries on a consolidated basis. Genworth Financial, Inc. hereby agrees to furnish to the U.S. Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of such long-term debt that is not filed or incorporated by reference as an exhibit to this Annual Report.

Genworth Financial, Inc. will furnish any exhibit upon the payment of a reasonable fee, which fee shall be limited to Genworth Financial, Inc. s reasonable expenses in furnishing such exhibit.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2017

**GENWORTH FINANCIAL, INC.**

| | |
|---|---|
| By: | /s/ Thomas J. McInerney |
| **Name:** | **Thomas J. McInerney** |
| **Title:** | **President and Chief Executive Officer; Director (Principal Executive Officer)** |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: February 27, 2017

| | |
|---|---|
| /s/ Thomas J. McInerney<br>**Thomas J. McInerney** | President and Chief Executive Officer; Director (Principal Executive Officer) |
| /s/ Kelly L. Groh<br>**Kelly L. Groh** | Executive Vice President and Chief Financial Officer (Principal Financial Officer) |
| /s/ Matthew D. Farney<br>**Matthew D. Farney** | Vice President and Controller<br>(Principal Accounting Officer) |
| *<br>**William H. Bolinder** | Director |
| *<br>**G. Kent Conrad** | Director |
| *<br>**Melina E. Higgins** | Director |

| | |
|---|---|
| * | Director |
| **David M. Moffett** | |
| * | Director |
| **Thomas E. Moloney** | |
| * | Director |
| **James A. Parke** | |
| * | Director |
| **Debra J. Perry** | |
| * | Director |
| **Robert P. Restrepo Jr.** | |
| * | Director |
| **James S. Riepe** | |

*By /s/ Thomas J. McInerney
**Thomas J. McInerney**

**Attorney-in-Fact**

380