GENWORTH FINANCIAL INC
Form 10-Q
April 29, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of April 22, 2015, 497,388,632 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 62,942	$ 62,447
Equity securities available-for-sale, at fair value	306	282
Commercial mortgage loans	6,149	6,100
Restricted commercial mortgage loans related to securitization entities	188	201
Policy loans	1,506	1,501
Other invested assets	2,723	2,296
Restricted other invested assets related to securitization entities, at fair value	411	411
Total investments	74,225	73,238
Cash and cash equivalents	5,158	4,918
Accrued investment income	735	685
Deferred acquisition costs	4,918	5,042
Intangible assets	227	272
Goodwill	15	16
Reinsurance recoverable	17,339	17,346
Other assets	650	633
Separate account assets	9,064	9,208
Total assets	$ 112,331	$ 111,358
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 36,488	$ 35,915
Policyholder account balances	26,146	26,043
Liability for policy and contract claims	8,030	8,043
Unearned premiums	3,731	3,986
Other liabilities ($38 and $45 of other liabilities are related to securitization entities)	3,899	3,604
Borrowings related to securitization entities ($81 and $85 are at fair value)	205	219
Non-recourse funding obligations	1,983	1,996

Long-term borrowings	4,601	4,639
Deferred tax liability	1,103	908
Separate account liabilities	9,064	9,208
Total liabilities	95,250	94,561
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 586 million and 585 million shares issued as of March 31, 2015 and December 31, 2014, respectively; 497 million shares outstanding as of March 31, 2015 and December 31, 2014	1	1
Additional paid-in capital	11,998	11,997
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,724	2,431
Net unrealized gains (losses) on other-than-temporarily impaired securities	24	22
Net unrealized investment gains (losses)	2,748	2,453
Derivatives qualifying as hedges	2,247	2,070
Foreign currency translation and other adjustments	(303)	(77)
Total accumulated other comprehensive income (loss)	4,692	4,446
Retained earnings	1,333	1,179
Treasury stock, at cost (88 million shares as of March 31, 2015 and December 31, 2014)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,324	14,923
Noncontrolling interests	1,757	1,874
Total stockholders equity	17,081	16,797
Total liabilities and stockholders equity	$ 112,331	$ 111,358

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenues:		
Premiums	$ 1,323	$ 1,307
Net investment income	803	805
Net investment gains (losses)	(16)	(17)
Insurance and investment product fees and other	225	227
Total revenues	2,335	2,322
Benefits and expenses:		
Benefits and other changes in policy reserves	1,243	1,194
Interest credited	180	183
Acquisition and operating expenses, net of deferrals	380	378
Amortization of deferred acquisition costs and intangibles	121	134
Interest expense	116	127
Total benefits and expenses	2,040	2,016
Income before income taxes	295	306
Provision for income taxes	91	87
Net income	204	219
Less: net income attributable to noncontrolling interests	50	35
Net income available to Genworth Financial, Inc. s common stockholders	$ 154	$ 184
Net income available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.31	$ 0.37
Diluted	$ 0.31	$ 0.37
Weighted-average common shares outstanding:		
Basic	497.0	495.8
Diluted	498.9	502.7

Supplemental disclosures:				
Total other-than-temporary impairments	$	(3)	$	(1)
Portion of other-than-temporary impairments included in other comprehensive income (loss)				
Net other-than-temporary impairments		(3)		(1)
Other investments gains (losses)		(13)		(16)
Total net investment gains (losses)	$	(16)	$	(17)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2015	2014
Net income	$ 204	$ 219
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	323	706
Net unrealized gains (losses) on other-than-temporarily impaired securities	2	6
Derivatives qualifying as hedges	177	219
Foreign currency translation and other adjustments	(370)	(21)
Total other comprehensive income (loss)	132	910
Total comprehensive income (loss)	336	1,129
Less: comprehensive income attributable to noncontrolling interests	(64)	4
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 400	$ 1,125

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc. s stockholders equity	Noncontrolling interests	Total stockholders equity
Balances as of December 31, 2014	$ 1	$ 11,997	$ 4,446	$ 1,179	$ (2,700)	$ 14,923	$ 1,874	$ 16,797
Comprehensive income (loss):								
Net income				154		154	50	204
Net unrealized gains (losses) on securities not other-than-temporarily impaired			293			293	30	323
Net unrealized gains (losses) on other-than-temporarily impaired securities			2			2		2
Derivatives qualifying as hedges			177			177		177
Foreign currency translation and other adjustments			(226)			(226)	(144)	(370)
Total comprehensive income (loss)						400	(64)	336
Dividends to noncontrolling interests							(54)	(54)
Stock-based compensation expense and exercises and other		1				1	1	2
Balances as of March 31, 2015	$ 1	$ 11,998	$ 4,692	$ 1,333	$ (2,700)	$ 15,324	$ 1,757	$ 17,081

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

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	$ 204	$ 219
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(17)	(28)
Net investment losses (gains)	16	17
Charges assessed to policyholders	(196)	(187)
Acquisition costs deferred	(110)	(119)
Amortization of deferred acquisition costs and intangibles	121	134
Deferred income taxes	39	17
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	18	26
Stock-based compensation expense	(2)	8
Change in certain assets and liabilities:		
Accrued investment income and other assets	(75)	(109)
Insurance reserves	614	550
Current tax liabilities	(3)	(182)
Other liabilities, policy and contract claims and other policy-related balances	15	(285)
Net cash from operating activities	624	61
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	1,153	1,135
Commercial mortgage loans	198	139
Restricted commercial mortgage loans related to securitization entities	13	7
Proceeds from sales of investments:		
Fixed maturity and equity securities	420	708
Purchases and originations of investments:		
Fixed maturity and equity securities	(1,839)	(2,172)
Commercial mortgage loans	(247)	(132)
Other invested assets, net	(64)	111
Net cash from investing activities	(366)	(204)

Cash flows from financing activities:		
Deposits to universal life and investment contracts	630	814
Withdrawals from universal life and investment contracts	(527)	(505)
Redemption of non-recourse funding obligations	(13)	(8)
Repayment of borrowings related to securitization entities	(11)	(7)
Dividends paid to noncontrolling interests	(54)	(13)
Other, net	10	(12)
Net cash from financing activities	35	269
Effect of exchange rate changes on cash and cash equivalents	(53)	20
Net change in cash and cash equivalents	240	146
Cash and cash equivalents at beginning of period	4,918	4,214
Cash and cash equivalents at end of period	$ 5,158	$ 4,360

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

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

The accompanying unaudited condensed financial statements include on a consolidated basis the accounts of Genworth Financial and the affiliate companies in which it holds a majority voting interest or where it is the primary beneficiary of a variable interest entity (VIE). All intercompany accounts and transactions have been eliminated in consolidation.

References to Genworth, the Company, we or our in the accompanying consolidated financial statements and these notes thereto are, unless the context otherwise requires, to Genworth Financial on a consolidated basis.

We have the following operating segments:

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

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

- ***U.S. Life Insurance.*** We offer and manage a variety of insurance and fixed annuity products in the United States. Our primary products include long-term care insurance, life insurance and fixed annuities.

International Protection. We provide payment protection coverages (referred to as lifestyle protection) in multiple European countries and have operations in select other countries. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). We no longer offer retail and group variable annuities but continue to service our existing blocks of business.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2014 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

a) Accounting Pronouncements Recently Adopted

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.

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 requires new disclosures for all repurchase agreements and securities lending transactions which will be effective in the second quarter of 2015. We do not have repurchase-to-maturity transactions, but have repurchase agreements and securities lending transactions that will be subject to additional disclosures. This new guidance did not have an impact on our consolidated financial statements but will impact our disclosures in the second quarter of 2015.

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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 a performance stock unit plan where 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.

b) Accounting Pronouncement Not Yet Adopted

In April 2015, the Financial Accounting Standards Board (the FASB) issued new guidance related to the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for us on January 1, 2016, with early adoption permitted, and is required to be applied on a retrospective basis. We are still in the process of evaluating the impact the guidance will have on our consolidated financial statements.

In February 2015, the FASB issued new accounting guidance related to consolidation. This 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. This guidance is effective for us on January 1, 2016, with early adoption permitted. We are in the process of determining the impact on our consolidated financial statements.

(3) Earnings Per Share

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

	Three months ended March 31,	
(Amounts in millions, except per share amounts)	**2015**	**2014**
Weighted-average shares used in basic earnings per common share calculations	497.0	495.8
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	1.9	6.9
Weighted-average shares used in diluted earnings per common share calculations	498.9	502.7
Net income:		

Net income	$ 204	$ 219
Less: net income attributable to noncontrolling interests	50	35
Net income available to Genworth Financial, Inc. s common stockholders	$ 154	$ 184
Basic per common share	$ 0.31	$ 0.37
Diluted per common share	$ 0.31	$ 0.37

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments

(a) Net Investment Income

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

	Three months ended March 31,	
(Amounts in millions)	**2015**	**2014**
Fixed maturity securities taxable	$ 639	$ 648
Fixed maturity securities non-taxable	3	3
Commercial mortgage loans	85	83
Restricted commercial mortgage loans related to securitization entities	4	4
Equity securities	4	4
Other invested assets	55	50
Restricted other invested assets related to securitization entities	1	1
Policy loans	33	31
Cash, cash equivalents and short-term investments	3	5
Gross investment income before expenses and fees	827	829
Expenses and fees	(24)	(24)
Net investment income	$ 803	$ 805

(b) Net Investment Gains (Losses)

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

	Three months ended March 31,	
(Amounts in millions)	**2015**	**2014**
Available-for-sale securities:		
Realized gains	$ 15	$ 7
Realized losses	(12)	(23)
Net realized gains (losses) on available-for-sale securities	3	(16)

Impairments:		
Total other-than-temporary impairments	(3)	(1)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(3)	(1)
Trading securities	6	12
Commercial mortgage loans	2	3
Net gains (losses) related to securitization entities	8	6
Derivative instruments [1]	(32)	(21)
Net investment gains (losses)	$ (16)	$ (17)

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended March 31, 2015 and 2014 was $140 million and $265 million, respectively, which was approximately 93% and 92%, respectively, of book value.

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

(Amounts in millions)	**2015**	**2014**
Beginning balance	$ 83	$ 101
Reductions:		
Securities sold, paid down or disposed	(5)	(2)
Ending balance	$ 78	$ 99

(c) Unrealized Investment Gains and Losses

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

(Amounts in millions)	**March 31, 2015**	**December 31, 2014**
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 6,500	$ 5,560
Equity securities	35	32
Other invested assets	(2)	(2)
Subtotal	6,533	5,590
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(2,112)	(1,656)
Income taxes, net	(1,534)	(1,372)

Net unrealized investment gains (losses)		2,887		2,562
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		139		109
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	2,748	$	2,453

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	2015	2014
Beginning balance	$ 2,453	$ 926
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	943	1,431
Adjustment to deferred acquisition costs	(98)	(99)
Adjustment to present value of future profits	(20)	(52)
Adjustment to sales inducements	(15)	(13)
Adjustment to benefit reserves	(323)	(188)
Provision for income taxes	(162)	(378)
Change in unrealized gains (losses) on investment securities	325	701
Reclassification adjustments to net investment (gains) losses, net of taxes of $ and $(6)		11
Change in net unrealized investment gains (losses)	325	712
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	30	14
Ending balance	$ 2,748	$ 1,624

(d) Fixed Maturity and Equity Securities

As of March 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	$ 4,985	$ 1,147	$	$	$	$ 6,132
Tax-exempt	348	29		(16)		361
Government non-U.S.	1,829	180		(1)		2,008

U.S. corporate	24,526	3,395	22	(43)		27,900
Corporate non-U.S.	13,791	1,177	1	(83)		14,886
Residential mortgage-backed	4,746	414	15	(11)	(1)	5,163
Commercial mortgage-backed	2,508	180	5	(3)		2,690
Other asset-backed	3,813	29	1	(41)		3,802
Total fixed maturity securities	56,546	6,551	44	(198)	(1)	62,942
Equity securities	280	29		(3)		306
Total available-for-sale securities	$ 56,826	$ 6,580	$ 44	$ (201)	$ (1)	$ 63,248

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(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	$ 5,006	$ 995	$	$ (1)	$	$ 6,000
Tax-exempt	347	29		(14)		362
Government non-U.S.	1,952	156		(2)		2,106
U.S. corporate	24,251	3,017	20	(88)		27,200
Corporate non-U.S.	14,214	1,015		(97)		15,132
Residential mortgage-backed	4,881	362	15	(17)	(1)	5,240
Commercial mortgage-backed	2,564	143	4	(9)		2,702
Other asset-backed	3,735	23	1	(54)		3,705
Total fixed maturity securities	56,950	5,740	40	(282)	(1)	62,447
Equity securities	253	36		(7)		282
Total available-for-sale securities	$ 57,203	$ 5,776	$ 40	$ (289)	$ (1)	$ 62,729

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 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 (1)	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities
Description of Securities									
Fixed maturity securities:									
Tax-exempt	$	$		$ 109	$ (16)	10	$ 109	$ (16)	10
Government non-U.S.	50	(1)	18				50	(1)	18
U.S. corporate	1,178	(19)	174	468	(24)	66	1,646	(43)	240
Corporate non-U.S.	1,024	(68)	172	249	(15)	39	1,273	(83)	211
Residential mortgage-backed				129	(12)	76	129	(12)	76
Commercial mortgage-backed	87	(1)	14	99	(2)	20	186	(3)	34
Other asset-backed	823	(4)	116	432	(37)	51	1,255	(41)	167
Subtotal, fixed maturity securities	3,162	(93)	494	1,486	(106)	262	4,648	(199)	756
Equity securities	68	(3)	64				68	(3)	64
Total for securities in an unrealized loss position	$ 3,230	$ (96)	558	$ 1,486	$ (106)	262	$ 4,716	$ (202)	820
% Below cost fixed maturity securities:									
<20% Below cost	$ 3,089	$ (66)	483	$ 1,369	$ (55)	242	$ 4,458	$ (121)	725
20%-50% Below cost	73	(27)	11	117	(50)	14	190	(77)	25
>50% Below cost					(1)	6		(1)	6
Total fixed maturity securities	3,162	(93)	494	1,486	(106)	262	4,648	(199)	756
% Below cost equity securities:									
<20% Below cost	64	(2)	58				64	(2)	58
20%-50% Below cost	4	(1)	6				4	(1)	6
Total equity securities	68	(3)	64				68	(3)	64

Total for securities in an unrealized loss position	$ 3,230	$ (96)	558	$ 1,486	$ (106)	262	$ 4,716	$ (202)	820
Investment grade	$ 2,766	$ (59)	445	$ 1,292	$ (85)	204	$ 4,058	$ (144)	649
Below investment grade [2]	464	(37)	113	194	(21)	58	658	(58)	171
Total for securities in an unrealized loss position	$ 3,230	$ (96)	558	$ 1,486	$ (106)	262	$ 4,716	$ (202)	820

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

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

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As indicated in the table above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to volatility in the utilities and energy sector, which resulted in a decline in the value of our corporate securities since acquisition. 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 March 31, 2015.

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

Of the $55 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 75% of the unrealized losses were related to investment grade securities as of March 31, 2015. These unrealized losses were predominantly attributable to corporate securities and municipal securities including fixed rate securities purchased in a lower rate environment and variable rate securities purchased in a higher rate and lower spread environment. The average fair value percentage below cost for these securities was approximately 4% as of March 31, 2015. 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 March 31, 2015:

	Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
Tax-exempt	$ 9	$ (3)	1%	1	$	$	%	
U.S. corporate	26	(10)	5	1				
Structured securities:								
Residential mortgage-backed	5	(4)	2	4				
Other asset-backed	68	(26)	13	4				
Total structured securities	73	(30)	15	8				
Total	$ 108	$ (43)	21%	10	$	$	%	

	Below Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
Structured securities:								
Residential mortgage-backed	$ 1	$ (1)	%	3	$	$ (1)	%	6
Other asset-backed	8	(6)	3	1				
Total structured securities	9	(7)	3	4		(1)		6
Total	$ 9	$ (7)	3%	4	$	$ (1)	%	6

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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.

Structured Securities

Of the $38 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, $1 million related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

While we considered the length of time each security had been in an unrealized loss position, the extent of the unrealized loss position and any significant declines in fair value subsequent to the balance sheet date in our evaluation of impairment for each of these individual securities, the primary factor in our evaluation of impairment is the expected performance for each of these securities. Our evaluation of expected performance is based on the historical performance of the associated securitization trust as well as the historical performance of the underlying collateral. Our examination of the historical performance of the securitization trust included consideration of the following factors for each class of securities issued by the trust: (i) the payment history, including failure to make scheduled payments; (ii) current payment status; (iii) current and historical outstanding balances; (iv) current levels of subordination and losses incurred to date; and (v) characteristics of the underlying collateral. Our examination of the historical performance of the underlying collateral included: (i) historical default rates, delinquency rates, voluntary and involuntary prepayments and severity of losses, including recent trends in this information; (ii) current payment status; (iii) loan to collateral value ratios, as applicable; (iv) vintage; and (v) other underlying characteristics such as current financial condition.

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

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of March 31, 2015.

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

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, 2014:

	Less than 12 months			**12 months or more**			**Total**		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses (1)**	**Number of securities**	**Fair value**	**Gross unrealized losses (1)**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$	$		$ 75	$ (1)	10	$ 75	$ (1)	10
Tax-exempt				111	(14)	10	111	(14)	10
Government non-U.S.	67	(1)	18	22	(1)	4	89	(2)	22
U.S. corporate	1,656	(31)	240	1,359	(57)	210	3,015	(88)	450
Corporate non-U.S.	1,568	(69)	239	515	(28)	70	2,083	(97)	309
Residential mortgage-backed	180	(1)	24	254	(17)	90	434	(18)	114
Commercial mortgage-backed	163		21	362	(9)	49	525	(9)	70
Other asset-backed	1,551	(12)	215	487	(42)	55	2,038	(54)	270
Subtotal, fixed maturity securities	5,185	(114)	757	3,185	(169)	498	8,370	(283)	1,255
Equity securities	30	(3)	46	48	(4)	6	78	(7)	52
Total for securities in an unrealized loss position	$ 5,215	$ (117)	803	$ 3,233	$ (173)	504	$ 8,448	$ (290)	1,307
% Below cost fixed maturity securities:									
<20% Below cost	$ 5,148	$ (103)	753	$ 3,054	$ (115)	477	$ 8,202	$ (218)	1,230
20%-50% Below cost	37	(11)	4	131	(53)	15	168	(64)	19
>50% Below cost					(1)	6		(1)	6

Total fixed maturity securities	5,185	(114)	757	3,185	(169)	498	8,370	(283)	1,255
% Below cost equity securities:									
<20% Below cost	26	(2)	40	48	(4)	6	74	(6)	46
20%-50% Below cost	4	(1)	6				4	(1)	6
Total equity securities	30	(3)	46	48	(4)	6	78	(7)	52
Total for securities in an unrealized loss position	$ 5,215	$ (117)	803	$ 3,233	$ (173)	504	$ 8,448	$ (290)	1,307
Investment grade	$ 4,623	$ (75)	675	$ 2,936	$ (146)	431	$ 7,559	$ (221)	1,106
Below investment grade [2]	592	(42)	128	297	(27)	73	889	(69)	201
Total for securities in an unrealized loss position	$ 5,215	$ (117)	803	$ 3,233	$ (173)	504	$ 8,448	$ (290)	1,307

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

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

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The scheduled maturity distribution of fixed maturity securities as of March 31, 2015 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 2,060	$ 2,077
Due after one year through five years	10,913	11,552
Due after five years through ten years	11,584	12,343
Due after ten years	20,922	25,315
Subtotal	45,479	51,287
Residential mortgage-backed	4,746	5,163
Commercial mortgage-backed	2,508	2,690
Other asset-backed	3,813	3,802
Total	$ 56,546	$ 62,942

As of March 31, 2015, $7,229 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of March 31, 2015, securities issued by utilities and energy, finance and insurance, and consumer non-cyclical industry groups represented approximately 25%, 19% and 12%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States and internationally, and is not dependent on the economic stability of one particular region.

As of March 31, 2015, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

(e) Commercial Mortgage Loans

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

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

	March 31, 2015		December 31, 2014	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 2,193	36%	$ 2,150	35%
Office	1,660	27	1,643	27
Industrial	1,553	25	1,597	26
Apartments	494	8	494	8
Mixed use/other	270	4	239	4
Subtotal	6,170	100%	6,123	100%
Unamortized balance of loan origination fees and costs	(1)		(1)	
Allowance for losses	(20)		(22)	
Total	$ 6,149		$ 6,100	

	March 31, 2015		December 31, 2014	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,677	27%	$ 1,673	27%
Pacific	1,616	26	1,636	27
Middle Atlantic	837	14	826	14
Mountain	557	9	536	9
East North Central	390	6	397	7
West North Central	385	6	382	6
West South Central	275	5	268	4
New England	267	4	264	4
East South Central	166	3	141	2
Subtotal	6,170	100%	6,123	100%

Unamortized balance of loan origination fees and costs	(1)	(1)
Allowance for losses	(20)	(22)
Total	$ 6,149	$ 6,100

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

	March 31, 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	$	$	$	$	$ 2,193	$ 2,193
Office			3	3	1,657	1,660
Industrial			2	2	1,551	1,553
Apartments					494	494
Mixed use/other					270	270
Total recorded investment	$	$	$ 5	$ 5	$ 6,165	$ 6,170
% of total commercial mortgage loans	%	%	%	%	100 %	100 %

	December 31, 2014					
(Amounts in millions)	31 - 60 days past due	61 - 90 days past due	Greater than 90 days past due	Total past due	Current	Total
Property type:						
Retail	$	$	$	$	$ 2,150	$ 2,150
Office			6	6	1,637	1,643
Industrial			2	2	1,595	1,597
Apartments					494	494
Mixed use/other					239	239
Total recorded investment	$	$	$ 8	$ 8	$ 6,115	$ 6,123
% of total commercial mortgage loans	%	%	%	%	100%	100 %

As of March 31, 2015 and December 31, 2014, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of March 31, 2015 and December 31, 2014.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of March 31, 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 three months ended March 31, 2015 and the year ended December 31, 2014, we modified or extended 3 and 28 commercial mortgage loans, respectively, with a total carrying value of $48 million and $254 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

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

(Amounts in millions)	**Three months ended March 31, 2015**	**2014**
Allowance for credit losses:		
Beginning balance	$ 22	$ 33
Charge-offs	(3)	(1)
Recoveries		
Provision	1	(2)
Ending balance	$ 20	$ 30
Ending allowance for individually impaired loans	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 20	$ 30
Recorded investment:		
Ending balance	$ 6,170	$ 5,924
Ending balance of individually impaired loans	$ 18	$ 17
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,152	$ 5,907

As of March 31, 2015, we had an individually impaired commercial mortgage loan included within the office property type with a recorded investment of $3 million, an unpaid principal balance of $6 million and charge-offs of $3 million. As of March 31, 2015 and December 31, 2014, we had an individually impaired commercial mortgage loan included within the industrial property type with a recorded investment of $15 million, an unpaid principal balance of $16 million and charge-offs of $1 million, which were recorded in the first quarter of 2014.

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

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

	March 31, 2015					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** (1)	**Total**
Property type:						
Retail	$ 715	$ 428	$ 958	$ 74	$ 18	$ 2,193
Office	464	261	798	116	21	1,660
Industrial	426	282	766	56	23	1,553
Apartments	215	74	197	8		494
Mixed use/other	59	36	169	6		270
Total recorded investment	$ 1,879	$ 1,081	$ 2,888	$ 260	$ 62	$ 6,170
% of total	30 %	18 %	47 %	4 %	1%	100 %
Weighted-average debt service coverage ratio	2.14	1.76	1.61	0.98	0.56	1.76

(1) Included $15 million of impaired loans and $47 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 118%.

	December 31, 2014					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** (1)	**Total**
Property type:						
Retail	$ 671	$ 419	$ 967	$ 75	$ 18	$ 2,150
Office	383	278	782	164	36	1,643
Industrial	451	285	778	60	23	1,597
Apartments	211	76	199	8		494
Mixed use/other	45	43	145	6		239

Total recorded investment	$ 1,761	$ 1,101	$ 2,871	$ 313	$ 77	$ 6,123
% of total	29 %	18 %	47 %	5 %	1%	100 %
Weighted-average debt service coverage ratio	2.27	1.75	1.61	1.02	0.72	1.78

(1) Included $15 million of impaired loans, $6 million of loans past due and not individually impaired and $56 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 120%.

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

	March 31, 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	$ 76	$ 248	$ 553	$ 901	$ 415	$ 2,193
Office	115	94	298	768	378	1,653
Industrial	160	143	240	675	333	1,551
Apartments	1	48	91	185	169	494
Mixed use/other	6	1	86	137	40	270
Total recorded investment	$ 358	$ 534	$ 1,268	$ 2,666	$ 1,335	$ 6,161
% of total	6%	9%	20%	43%	22%	100%
Weighted-average loan-to-value	75%	63%	60%	60%	44%	58%

	December 31, 2014					
(Amounts in millions)	Less than 1.00	1.00 - 1.25	1.26 - 1.50	1.51 - 2.00	Greater than 2.00	Total
Property type:						
Retail	$ 80	$ 253	$ 524	$ 870	$ 423	$ 2,150
Office	119	101	247	780	389	1,636
Industrial	158	142	246	706	343	1,595
Apartments	1	48	88	186	171	494
Mixed use/other	6	1	61	135	36	239
Total recorded investment	$ 364	$ 545	$ 1,166	$ 2,677	$ 1,362	$ 6,114
% of total	6%	9%	19%	44%	22%	100%
Weighted-average loan-to-value	77%	64%	64%	59%	45%	59%

As of March 31, 2015 and December 31, 2014, we had floating rate commercial mortgage loans of $9 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.

(g) Restricted Other Invested Assets Related To Securitization Entities

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

(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

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other speculative derivatives activities. These policies require the use of derivative instruments in concert with other techniques to reduce or mitigate these risks. While we use derivatives to mitigate or reduce risks, certain derivatives do not meet the accounting requirements to be designated as hedging instruments and are denoted as derivatives not designated as hedges in the following disclosures. For derivatives that meet the accounting requirements to be designated as hedges, the following disclosures for these derivatives are denoted as derivatives designated as hedges, which include both cash flow and fair value hedges.

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

	Derivative assets			Derivative liabilities		
		Fair value			Fair value	
(Amounts in millions)	**Balance sheet classification**	**March 31, 2015**	**December 31, 2014**	**Balance sheet classification**	**March 31, 2015**	**December 31, 2014**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 948	$ 639	Other liabilities	$ 45	$ 27
Inflation indexed swaps	Other invested assets			Other liabilities	31	42
Foreign currency swaps	Other invested assets	9	6	Other liabilities		
Total cash flow hedges		957	645		76	69
Total derivatives designated as hedges		957	645		76	69
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	492	452	Other liabilities	224	177
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	29	26
Foreign currency swaps	Other invested assets			Other liabilities	15	7
Credit default swaps	Other invested assets	3	4	Other liabilities		
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	10	17
Equity index options	Other invested assets	15	17	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets			Other liabilities	6	1
	Other invested assets	17	14	Other liabilities	24	13

Other foreign currency contracts						
GMWB embedded derivatives	Reinsurance recoverable [1]	14	13	Policyholder account balances [2]	316	291
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances [3]	300	276
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances [4]	7	7
Total derivatives not designated as hedges		541	500		931	815
Total derivatives		$ 1,498	$ 1,145		$ 1,007	$ 884

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

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

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

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

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

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, 2014	Additions	Maturities/ terminations	March 31, 2015
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 11,961	$	$ (6)	$ 11,955
Inflation indexed swaps	Notional	571	1	(10)	562
Foreign currency swaps	Notional	35			35
Total cash flow hedges		12,567	1	(16)	12,552
Total derivatives designated as hedges		12,567	1	(16)	12,552
Derivatives not designated as hedges					
Interest rate swaps	Notional	5,074	250	(392)	4,932
Interest rate swaps related to securitization entities	Notional	77		(4)	73
Credit default swaps	Notional	394			394
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	994	212	(201)	1,005
Financial futures	Notional	1,331	1,465	(1,433)	1,363
Equity return swaps	Notional	108	127	(103)	132
Foreign currency swaps	Notional	104	4		108
Other foreign currency contracts	Notional	425	104	(129)	400
Total derivatives not designated as hedges		8,819	2,162	(2,262)	8,719
Total derivatives		$ 21,386	$ 2,163	$ (2,278)	$ 21,271

(Number of policies)	Measurement	December 31, 2014	Additions	Maturities/ terminations	March 31, 2015
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	39,015		(784)	38,231
Fixed index annuity embedded derivatives	Policies	13,901	1,179	(82)	14,998
Indexed universal life embedded derivatives	Policies	421	127	(2)	546

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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 effects of cash flow hedges for the three months ended March 31, 2015:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [(1)]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ 306	$ 19	Net investment income	$ 4	Net investment gains (losses)
Interest rate swaps hedging liabilities	(18)		Interest expense		Net investment gains (losses)
Inflation indexed swaps	11	9	Net investment income		Net investment gains (losses)
Foreign currency swaps	3		Net investment income		Net investment gains (losses)
Total	$ 302	$ 28		$ 4	

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

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

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

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

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

(Amounts in millions)	**Three months ended March 31, 2015**	**2014**
Derivatives qualifying as effective accounting hedges as of January 1	$ 2,070	$ 1,319
Current period increases (decreases) in fair value, net of deferred taxes of $(107) and $(124)	195	228
Reclassification to net (income), net of deferred taxes of $10 and $5	(18)	(9)
Derivatives qualifying as effective accounting hedges as of March 31	$ 2,247	$ 1,538

The total of derivatives designated as cash flow hedges of $2,247 million, net of taxes, recorded in stockholders equity as of March 31, 2015 is expected to be reclassified to net income in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $59 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2047. There were immaterial amounts reclassified to net income during the three months ended March 31, 2015 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

Certain derivative instruments are designated as fair value hedges. The changes in fair value of these instruments are recorded in net income. In addition, changes in the fair value attributable to the hedged portion of the underlying instrument are reported in net income. We designate and account for the following as fair value hedges when they have met the effectiveness requirements: (i) interest rate swaps to convert fixed rate 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 effects of fair value hedges and related hedged items for the three months ended March 31, 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.

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Additionally, we provide GMWBs on certain variable annuities that are required to be bifurcated as embedded derivatives. We also offer fixed index annuity and indexed universal life products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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

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

	Three months ended March 31,		Classification of gain (loss) recognized
(Amounts in millions)	**2015**	**2014**	**in net income**
Interest rate swaps	$ 8	$ (3)	Net investment gains (losses)
Interest rate swaps related to securitization entities	(3)	(3)	Net investment gains (losses)
Credit default swaps	1		Net investment gains (losses)
Credit default swaps related to securitization entities	8	7	Net investment gains (losses)
Equity index options	(10)	(7)	Net investment gains (losses)
Financial futures	7	27	Net investment gains (losses)
Equity return swaps	(9)	(1)	Net investment gains (losses)
Other foreign currency contracts	(1)	(9)	Net investment gains (losses)
Foreign currency swaps	(10)		Net investment gains (losses)
GMWB embedded derivatives	(16)	(31)	Net investment gains (losses)
Fixed index annuity embedded derivatives	(7)	(1)	Net investment gains (losses)
Indexed universal life embedded derivatives	1		Net investment gains (losses)
	$ (31)	$ (21)	

Total derivatives not designated as hedges	

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.

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

	March 31, 2015			December 31, 2014		
(Amounts in millions)	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives
Amounts presented in the balance sheet:						
Gross amounts recognized	$ 1,526	$ 369	$ 1,157	$ 1,157	$ 273	$ 884
Gross amounts offset in the balance sheet						
Net amounts presented in the balance sheet	1,526	369	1,157	1,157	273	884
Gross amounts not offset in the balance sheet:						
Financial instruments (3)	(289)	(289)		(227)	(227)	
Collateral received	(1,088)		(1,088)	(884)		(884)
Collateral pledged		(205)	205		(49)	49
Over collateralization	2	125	(123)	1	5	(4)
Net amount	$ 151	$	$ 151	$ 47	$ 2	$ 45

(1) Included $42 million and $25 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of March 31, 2015 and December 31, 2014, respectively.

(2) Included $24 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 March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014, we could have been allowed to claim $151 million and $47 million, respectively, or required to disburse up to $2 million as of December 31, 2014. 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.

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

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

	March 31, 2015			December 31, 2014		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Investment grade						
Matures in less than one year	$	$	$	$	$	$
Matures after one year through five years	39	1		39	1	
Total credit default swaps on single name reference entities	$ 39	$ 1	$	$ 39	$ 1	$

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

	March 31, 2015			December 31, 2014		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Original index tranche attachment/detachment point and maturity:						
7% - 15% matures after one year through five years (1)	$ 100	$ 1	$	$ 100	$ 1	$
9% - 12% matures in less than one year (2)	250	1		250	2	
Total credit default swap index tranches	350	2		350	3	

Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 (3)	12			12		
Portion backing our interest maturing 2017 (4)	300		10	300		17
Total customized credit default swap index tranches related to securitization entities	312		10	312		17
Total credit default swaps on index tranches	$ 662	$ 2	$ 10	$ 662	$ 3	$ 17

(1) The current attachment/detachment as of March 31, 2015 and December 31, 2014 was 7% 15%.
(2) The current attachment/detachment as of March 31, 2015 and December 31, 2014 was 9% 12%.
(3) Original notional value was $39 million.
(4) Original notional value was $300 million.

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(6) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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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 the dates indicated:

	March 31, 2015					
			Fair value			
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,149	$ 6,588	$	$	$ 6,588
Restricted commercial mortgage loans	(1)	188	213			213
Other invested assets	(1)	484	487		412	75
Liabilities:						
Long-term borrowings	(1)	4,601	4,422		4,312	110
Non-recourse funding obligations	(1)	1,983	1,435			1,435
Borrowings related to securitization entities	(1)	124	133		133	
Investment contracts	(1)	17,514	18,597		7	18,590
Other firm commitments:						
Commitments to fund limited partnerships	71					
Ordinary course of business lending commitments	49					

	December 31, 2014					
			Fair value			
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,100	$ 6,573	$	$	$ 6,573
Restricted commercial mortgage loans	(1)	201	228			228

Other invested assets		(1)	374	385	300	85
Liabilities:						
Long-term borrowings		(1)	4,639	4,300	4,181	119
Non-recourse funding obligations		(1)	1,996	1,438		1,438
Borrowings related to securitization entities		(1)	134	146	146	
Investment contracts		(1)	17,497	18,023	7	18,016
Other firm commitments:						
Commitments to fund limited partnerships	53					
Ordinary course of business lending commitments	155					

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

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Recurring Fair Value Measurements

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

Fixed maturity, equity and trading securities

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

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

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For private fixed maturity securities, 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. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

For broker quotes, we consider the valuation methodology utilized by the third party and analyze a sample each month to assess reasonableness given then current market conditions. Additionally, for broker quotes on certain structured securities, we validate prices received against other publicly available pricing sources. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

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

Restricted other invested assets related to securitization entities

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

Securities lending 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.

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.

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Derivatives

We consider counterparty collateral arrangements and rights of set-off when evaluating our net credit risk exposure to our derivative counterparties. Accordingly, we are permitted to include consideration of these arrangements when determining whether any incremental adjustment should be made for both the counterparty s and our non-performance risk in measuring fair value for our derivative instruments. As a result of these counterparty arrangements, we determined that any adjustment for credit risk would not be material and we do not record any incremental adjustment for our non-performance risk or the non-performance risk of the derivative counterparty for our derivative assets or liabilities. We determine fair value for our derivatives using an income approach with internal models based on relevant market inputs for each derivative instrument. We also compare the fair value determined using our internal model to the valuations provided by our derivative counterparties with any significant differences or changes in valuation being evaluated further by our derivatives professionals that are familiar with the instrument and market inputs used in the valuation.

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

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

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

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

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

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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, 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

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determined using an income approach. The primary inputs into the valuation represent the forward foreign currency exchange rates, which are generally considered observable inputs and results in the derivative being classified as Level 2.

GMWB embedded derivatives

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

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of March 31, 2015 and December 31, 2014, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $81 million and $74 million, respectively.

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

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

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

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

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

Fixed index annuity embedded derivatives

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

Indexed universal life embedded derivatives

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

Borrowings related to securitization entities

We record certain borrowings related to securitization entities at fair value. The fair value of these borrowings is determined using either a market approach or income approach, depending on the instrument and availability of market information. Given the unique characteristics of the securitization entities that issued these borrowings as well as the lack of comparable instruments, we determine fair value considering the valuation of 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.

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

	March 31, 2015			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 6,132	$	$ 6,129	$ 3
Tax-exempt	361		361	
Government non-U.S.	2,008		2,002	6
U.S. corporate	27,900		25,422	2,478
Corporate non-U.S.	14,886		13,109	1,777
Residential mortgage-backed	5,163		5,094	69
Commercial mortgage-backed	2,690		2,686	4
Other asset-backed	3,802		2,346	1,456
Total fixed maturity securities	62,942		57,149	5,793
Equity securities	306	269	3	34
Other invested assets:				
Trading securities	218		218	
Derivative assets:				
Interest rate swaps	1,440		1,440	
Foreign currency swaps	9		9	
Credit default swaps	3		1	2
Equity index options	15			15
Other foreign currency contracts	17		17	
Total derivative assets	1,484		1,467	17
Securities lending collateral	323		323	
Total other invested assets	2,025		2,008	17
Restricted other invested assets related to securitization entities	411		181	230
Reinsurance recoverable [(1)]	14			14

Separate account assets	9,064	9,064		
Total assets	$ 74,762	$ 9,333	$ 59,341	$ 6,088
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives (2)	$ 316	$	$	$ 316
Fixed index annuity embedded derivatives	300			300
Indexed universal life embedded derivatives	7			7
Total policyholder account balances	623			623
Derivative liabilities:				
Interest rate swaps	269		269	
Interest rate swaps related to securitization entities	29		29	
Inflation indexed swaps	31		31	
Foreign currency swaps	15		15	
Credit default swaps related to securitization entities	10			10
Equity return swaps	6		6	
Other foreign currency contracts	24		24	
Total derivative liabilities	384		374	10
Borrowings related to securitization entities	81			81
Total liabilities	$ 1,088	$	$ 374	$ 714

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

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	December 31, 2014			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 6,000	$	$ 5,996	$ 4
Tax-exempt	362		362	
Government non-U.S.	2,106		2,099	7
U.S. corporate	27,200		24,752	2,448
Corporate non-U.S.	15,132		13,327	1,805
Residential mortgage-backed	5,240		5,165	75
Commercial mortgage-backed	2,702		2,697	5
Other asset-backed	3,705		2,285	1,420
Total fixed maturity securities	62,447		56,683	5,764
Equity securities	282	244	4	34
Other invested assets:				
Trading securities	241		241	
Derivative assets:				
Interest rate swaps	1,091		1,091	
Foreign currency swaps	6		6	
Credit default swaps	4		1	3
Equity index options	17			17
Other foreign currency contracts	14		14	
Total derivative assets	1,132		1,112	20
Securities lending collateral	289		289	
Total other invested assets	1,662		1,642	20
Restricted other invested assets related to securitization entities	411		181	230
Reinsurance recoverable [1]	13			13
Separate account assets	9,208	9,208		
Total assets	$ 74,023	$ 9,452	$ 58,510	$ 6,061

Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [2]	$ 291	$	$	$ 291
Fixed index annuity embedded derivatives	276			276
Indexed universal life embedded derivatives	7			7
Total policyholder account balances	574			574
Derivative liabilities:				
Interest rate swaps	204		204	
Interest rate swaps related to securitization entities	26		26	
Inflation indexed swaps	42		42	
Foreign currency swaps	7		7	
Credit default swaps related to securitization entities	17			17
Equity return swaps	1		1	
Other foreign currency contracts	13		13	
Total derivative liabilities	310		293	17
Borrowings related to securitization entities	85			85
Total liabilities	$ 969	$	$ 293	$ 676

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

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

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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.

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

(Amounts in millions)	Beginning balance as of January 1, 2015	Total realized and unrealized gains (losses) Included in net income	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 March 31, 2015	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 4	$	$	$	$	$	$ (1)	$	$	$ 3	$
Government non-U.S.	7						(1)			6	
U.S. corporate	2,448	8	41	47			(52)		(14)	2,478	
Corporate non-U.S.	1,805		21	7	(9)		(46)		(1)	1,777	
Residential mortgage-backed	75		(2)				(3)		(1)	69	
Commercial mortgage-backed	5								(1)	4	
Other asset-backed [(1)]	1,420	1	13	38			(11)	33	(38)	1,456	(1)
Total fixed maturity securities	5,764	9	73	92	(9)		(114)	33	(55)	5,793	(1)
Equity securities	34			1	(1)					34	
Other invested assets:											
Derivative assets:											
Credit default swaps	3						(1)			2	
Equity index options	17	(10)		8						15	(8)

Total derivative assets	20	(10)		8			(1)			17	(8)
Total other invested assets	20	(10)		8			(1)			17	(8)
Restricted other invested assets related to securitization entities	230									230	
Reinsurance recoverable [2]	13	1								14	1
Total Level 3 assets	$ 6,061	$	$ 73	$ 101	$ (10)	$	$ (115)	$ 33	$ (55)	$ 6,088	$ (8)

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

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

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(Amounts in millions)	Beginning balance as of January 1, 2014	Total realized and unrealized gains (losses) Included in net income	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 March 31, 2014	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 5	$	$	$	$	$	$ (1)	$	$	$ 4	$
Government non-U.S.	23			2			(1)			24	
U.S. corporate [(1)]	2,400	5	29	90			(42)	14	(128)	2,368	5
Corporate non-U.S. [(1)]	1,819	1	9	36			(35)		(32)	1,798	1
Residential mortgage-backed	105		1		(23)		(3)	13		93	
Commercial mortgage-backed	6		2				(1)	6		13	
Other asset-backed [(1)]	1,166	1	(4)	16	(5)		(37)	36	(20)	1,153	1
Total fixed maturity securities	5,524	7	37	144	(28)		(120)	69	(180)	5,453	7
Equity securities	78									78	
Other invested assets:											
Trading securities	34						(3)			31	
Derivative assets:											
Credit default swaps	10						(2)			8	
Equity index options	12	(7)		6						11	(7)
Other foreign currency contracts	3	(2)								1	(2)
Total derivative assets	25	(9)		6			(2)			20	(9)

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

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

[2] Represents embedded derivatives associated with the reinsured portion of our GMWB liabilities.

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The following table presents the gains and losses included in net income 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 three months ended March 31:

(Amounts in millions)	**2015**	**2014**
Total realized and unrealized gains (losses) included in net income:		
Net investment income	$ 11	$ 8
Net investment gains (losses)	(11)	(1)
Total	$	$ 7
Net gains (losses) included in net income attributable to assets still held:		
Net investment income	$	$ 8
Net investment gains (losses)	(8)	(1)
Total	$ (8)	$ 7

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

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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, 2015	Total realized and unrealized (gains) losses Included in net (income)	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 March 31, 2015	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 291	$ 17	$	$	$	$ 8	$	$	$	$ 316	$ 20
Fixed index annuity embedded derivatives	276	7				19	(2)			300	7
Indexed universal life embedded derivatives	7	(1)				1				7	
Total policyholder account balances	574	23				28	(2)			623	27
Derivative liabilities:											
Credit default swaps related to securitization entities	17	(8)		1						10	(8)
Total derivative liabilities	17	(8)		1						10	(8)
Borrowings related to securitization entities	85	(4)								81	(4)
	$ 676	$ 11	$	$ 1	$	$ 28	$ (2)	$	$	$ 714	$ 15

Total Level 3 liabilities

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

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(Amounts in millions)	Beginning balance as of January 1, 2014	Total realized and unrealized (gains) losses Included in net (income)	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 March 31, 2014	Total (gains) losses included in net (income) attributable to liabilities still held
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 96	$ 33	$	$	$	$ 9	$	$	$	$ 138	$ 34
Fixed index annuity embedded derivatives	143	2				36	(1)			180	2
Total policyholder account balances	239	35				45	(1)			318	36
Derivative liabilities:											
Credit default swaps related to securitization entities	32	(7)								25	(7)
Other foreign currency contracts	1	1								2	1
Total derivative liabilities	33	(6)								27	(6)
Borrowings related to securitization entities	75	4								79	4
Total Level 3 liabilities	$ 347	$ 33	$	$	$	$ 45	$ (1)	$	$	$ 424	$ 34

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

The following table presents the gains and losses included in net (income) 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 three months ended March 31:

(Amounts in millions)	**2015**	**2014**
Total realized and unrealized (gains) losses included in net (income):		
Net investment income	$	$
Net investment (gains) losses	11	33
Total	$ 11	$ 33
Total (gains) losses included in net (income) attributable to liabilities still held:		
Net investment income	$	$
Net investment (gains) losses	15	34
Total	$ 15	$ 34

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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 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 (income) in the tables presented above.

Certain classes of instruments classified as Level 3 are excluded below as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value. The following table presents a summary of the significant unobservable inputs used for certain fair value measurements that are based on internal models and classified as Level 3 as of March 31, 2015:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range (weighted-average)
Assets				
Fixed maturity securities:				
U.S. corporate	Internal models	$ 2,264	Credit spreads	60bps - 368bps (155bps)
Corporate non-U.S.	Internal models	1,589	Credit spreads	67bps - 808bps (170bps)
Derivative assets:				
Credit default swaps	Discounted cash flows	2	Credit spreads	8bps - 10bps (9bps)
Equity index options	Discounted cash flows	15	Equity index volatility	13% - 24% (21%)
Liabilities				
Policyholder account balances:				
				% - 98%

			Withdrawal utilization rate	
			Lapse rate	% - 15%
			Non-performance risk (credit spreads)	50bps - 85bps (79bps)
GMWB embedded derivatives [1]	Stochastic cash flow model	316	Equity index volatility	15% - 24% (21%)
Fixed index annuity embedded derivatives	Option budget method	300	Expected future interest credited	% - 2% (2%)
Indexed universal life embedded derivatives	Option budget method	7	Expected future interest credited	3% - 8% (5%)

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

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(7) Commitments and Contingencies

(a) Litigation and Regulatory Matters

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In our insurance operations, we are, have been, or may become subject to class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, increases to in-force long-term care insurance premiums, payment of contingent or other sales commissions, claims payments and procedures, product design, product disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, charging excessive or impermissible fees on products, recommending unsuitable products to customers, our pricing structures and business practices in our mortgage insurance businesses, such as captive reinsurance arrangements with lenders and contract underwriting services, violations of the Real Estate Settlement and Procedures Act of 1974 (RESPA) or related state anti-inducement laws, and mortgage insurance policy rescissions and curtailments, and breaching fiduciary or other duties to customers, including but not limited to breach of customer information. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have 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 August 2014, Genworth Financial, Inc., its current chief executive officer and its current chief financial officer were named in a putative class action lawsuit captioned *Manuel Esguerra v. Genworth Financial, Inc.*, *et al*, in the United States District Court for the Southern District of New York. Plaintiff 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. 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 March 9, 2015, plaintiffs filed a memorandum of law in opposition to our motion to dismiss. On March 24, 2015, we filed our reply memorandum of law in further support of our motion to dismiss. The Court heard argument on our motion to dismiss the complaint on April 28, 2015. We intend to vigorously defend this lawsuit.

In April 2014, Genworth Financial, Inc., its former chief executive officer and its current chief financial officer were named in a putative class action lawsuit captioned *City of Hialeah Employees Retirement System v.*

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Genworth Financial, Inc., *et al*, in the United States District Court for the Southern District of New York. Plaintiff alleges securities law violations involving certain disclosures in 2012 concerning Genworth s Australian mortgage insurance business, including our plans for an initial public offering of the business. The lawsuit seeks unspecified damages, costs and attorneys fees and such equitable/injunctive relief as the court may deem proper. 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, which motion was fully briefed as of March 4, 2015. 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 intend to vigorously defend this action.

Beginning in December 2011 and continuing through January 2013, one of our U.S. mortgage insurance subsidiaries was named along with several other mortgage insurance participants and mortgage lenders as a defendant in twelve putative class action lawsuits alleging that certain captive reinsurance arrangements were in violation of RESPA. Those cases are captioned as follows: *Samp, et al. v. JPMorgan Chase Bank, N.A., et al.,* United States District Court for the Central District of California; *White, et al., v. The PNC Financial Services Group, Inc., et al.,* United States District Court for the Eastern District of Pennsylvania; *Menichino, et al. v. Citibank NA, et al.,* United States District Court for the Western District of Pennsylvania; *McCarn, et al. v. HSBC USA, Inc., et al.*, United States District Court for the Eastern District of California; *Manners, et al., v. Fifth Third Bank, et al.*, United States District Court for the Western District of Pennsylvania; *Riddle, et al. v. Bank of America Corporation, et al.*, United States District Court for the Eastern District of Pennsylvania; *Rulison et al. v. ABN AMRO Mortgage Group, Inc. et al.*, United States District Court for the Southern District of New York; *Barlee, et al. v. First Horizon National Corporation, et al.*, United States District Court for the Eastern District of Pennsylvania; *Cunningham, et al. v. M&T Bank Corp., et al.*, United States District Court for the Middle District of Pennsylvania; *Orange, et al. v. Wachovia Bank, N.A., et al.*, United States District Court for the Central District of California; *Hill et al. v. Flagstar Bank, FSB, et al.,* United States District Court for the Eastern District of Pennsylvania; and *Moriba Ba, et al. v. HSBC USA, Inc., et al.,* United States District Court for the Eastern District of Pennsylvania. Plaintiffs allege that captive reinsurance arrangements with providers of private mortgage insurance whereby a mortgage lender through captive reinsurance arrangements received a portion of the borrowers private mortgage insurance premiums were in violation of RESPA and unjustly enriched the defendants for which plaintiffs seek declaratory relief and unspecified monetary damages, including restitution. The *McCarn* case was dismissed by the court with prejudice as to our subsidiary and certain other defendants on November 9, 2012. On July 3, 2012, the *Rulison* case was voluntarily dismissed by the plaintiffs. The *Barlee* case was dismissed by the court with prejudice as to our subsidiary and certain other defendants on February 27, 2013. The *Manners* case was dismissed by voluntary stipulation in March 2013. In early May 2013, the *Samp* and *Orange* cases were dismissed with prejudice as to our subsidiary. Plaintiffs appealed both of those dismissals, but have since withdrawn those appeals. The *White* case was dismissed by the court without prejudice on June 20, 2013, and on July 5, 2013 plaintiffs filed a second amended complaint again naming our U.S. mortgage insurance subsidiary as a defendant. The *Menichino* case was dismissed by the court without prejudice as to our subsidiary and certain other defendants on July 19, 2013. Plaintiffs filed a second amended complaint again naming our U.S. mortgage insurance subsidiary as a defendant and we moved to dismiss the second amended complaint. In the *Riddle*, *Hill*, *Ba* and *Cunningham* cases, the defendants motions to dismiss were denied, but the court in the *Riddle*, *Hill* and *Cunningham* cases limited discovery to issues surrounding whether the case should be dismissed on statute of limitations grounds. In the *Hill* case, on December 17, 2013, we moved for summary judgment dismissing the complaint. The court granted our motion, and in July 2014, the *Hill* plaintiffs filed a notice of appeal with the Third Circuit Court of Appeals. In the *Riddle* case, in late November 2013, the United States

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District Court for the Eastern District of Pennsylvania granted our motion for summary judgment dismissing the case. Plaintiffs appealed the dismissal. In October 2014, the Third Circuit Court of Appeals upheld the dismissal of the *Riddle* action. On January 30, 2015, our U.S. mortgage insurance subsidiary and all named plantiffs in the cases still pending as of such date entered into a settlement agreement that has resulted in the dismissal of all actions as to our subsidiary. This settlement had no impact on our financial position or results of operations.

In December 2009, one of our former non-insurance subsidiaries, one of the former subsidiary s officers and Genworth Financial, Inc. (now known as Genworth Holdings, Inc.) were named in a putative class action lawsuit captioned *Michael J. Goodman and Linda Brown v. Genworth Financial Wealth Management, Inc. et al*., in the United States District Court for the Eastern District of New York. Plaintiffs allege securities law and other violations involving the selection of mutual funds by our former subsidiary on behalf of certain of its Private Client Group clients. The lawsuit seeks unspecified monetary damages and other relief. In response to our motion to dismiss the complaint in its entirety, the court granted the motion to dismiss the state law fiduciary duty claim and denied the motion to dismiss the remaining federal claims. The District Court denied plaintiffs motion to certify a class on April 15, 2014. On April 29, 2014, plaintiffs filed a motion with the Second Circuit Court of Appeals for permission to appeal the District Court s denial of their motion to certify a class, which we opposed. On July 9, 2014, the Second Circuit Court of Appeals denied plaintiffs motion. Pursuant to a joint stipulation of the parties, on March 20, 2015, the United States District Court for the Eastern District of New York entered a final order dismissing with prejudice all claims against the defendants.

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

In addition to the negotiated settlement with Bank of America, N.A. discussed above, we have resolved a matter involving a second servicer s dispute with us on loss mitigation. This second dispute did not involve any formal legal proceeding, as is the case with other discussions we have had from time to time with other lenders and servicers over disputed loss mitigation activities. During the third quarter of 2014, we recorded an aggregate increase in our claim reserves for our U.S. mortgage insurance business of $53 million principally to provide for the anticipated financial impact in connection with the settlement of the Bank of America, N.A. arbitration, as well as the second dispute, both of which were settled for amounts which in the aggregate were included within the claim reserve increase mentioned above.

At this time, we cannot determine or predict the ultimate outcome of any of the pending legal and regulatory matters specifically identified above or the likelihood of potential future legal and regulatory matters against

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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 March 31, 2015, we were committed to fund $71 million in limited partnership investments and $49 million in U.S. commercial mortgage loan investments.

(8) Segment Information

We operate through three divisions: Global Mortgage Insurance, U.S. Life Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The U.S. Life Insurance Division includes the U.S. Life Insurance segment. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. Our operating business segments are as follows: (1) International Mortgage Insurance, which includes mortgage insurance-related products and services; (2) U.S. Mortgage Insurance, which includes mortgage insurance-related products and services; (3) U.S. Life Insurance, which includes our long-term care insurance, life insurance and fixed annuities businesses; (4) International Protection, which includes our lifestyle protection insurance business; and (5) Runoff, which includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of: funding agreements, FABNs and GICs.

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

In the first quarter of 2015, we revised how we allocate our consolidated provision for income taxes to our operating segments to simplify our process and reflect how our chief operating decision maker is evaluating segment performance. Our revised methodology applies a specific tax rate to the pre-tax income (loss) of each segment, which is then adjusted in each segment to reflect the tax attributes of items unique to that segment such as foreign income. The difference between the consolidated provision for income taxes and the sum of the provision for income taxes in each segment is reflected in Corporate and Other activities. Previously, we calculated a unique income tax provision for each segment based on quarterly changes to tax attributes and implications of transactions specific to each product within the segment.

The annually-determined tax rates and adjustments to each segment s provision for income taxes are estimates which are subject to review and could change from year to year. Prior year amounts have not been re-presented to reflect this revised presentation and are, therefore, not comparable to the current year provision for income taxes by segment. However, we do not believe that the previous methodology would have resulted in a materially different segment-level provision for income taxes.

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We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income and assets. Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss). We define net operating income (loss) as income (loss) from continuing operations excluding the after-tax effects of income attributable to noncontrolling interests, net investment gains (losses), goodwill impairments, gains (losses) on the sale of businesses, gains (losses) on the early extinguishment of debt, gains (losses) on insurance block transactions, 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 net operating income (loss) because, in our opinion, they are not indicative of overall operating trends. Infrequent or unusual non-operating items are also excluded from net operating income (loss) if, in our opinion, they are not indicative of overall operating trends.

In the first quarter of 2015, we modified our definition to explicitly state that restructuring costs, which were previously included in the infrequent and unusual category, are excluded from net operating income (loss). There were no restructuring costs in the periods presented.

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

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

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

	Three months ended March 31,	
(Amounts in millions)	**2015**	**2014**
Revenues:		
International Mortgage Insurance segment:		
Canada	$ 136	$ 168
Australia	118	131
Other Countries	7	9
International Mortgage Insurance segment s revenues	261	308
U.S. Mortgage Insurance segment s revenues	170	155
U.S. Life Insurance segment:		
Long-term care insurance	905	856
Life insurance	487	480
Fixed annuities	233	257
U.S. Life Insurance segment s revenues	1,625	1,593
International Protection segment s revenues	202	207
Runoff segment s revenues	74	73
Corporate and Other s revenues	3	(14)
Total revenues	$ 2,335	$ 2,322

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

(Amounts in millions)	**Three months ended March 31, 2015**	**2014**
International Mortgage Insurance segment:		
Canada	$ 40	$ 41
Australia	30	62
Other Countries	(6)	(4)
International Mortgage Insurance segment s net operating income	64	99
U.S. Mortgage Insurance segment s net operating income	52	33
U.S. Life Insurance segment:		
Long-term care insurance	10	46
Life insurance	40	21
Fixed annuities	31	27
U.S. Life Insurance segment s net operating income	81	94
International Protection segment s net operating income		7
Runoff segment s net operating income	11	12
Corporate and Other s net operating loss	(52)	(51)
Net operating income	156	194
Net investment gains (losses), net	(2)	(10)
Net income available to Genworth Financial, Inc. s common stockholders	154	184
Add: net income attributable to noncontrolling interests	50	35
Net income	$ 204	$ 219

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

(Amounts in millions)	**March 31, 2015**	**December 31, 2014**
Assets:		
International Mortgage Insurance	$ 8,198	$ 8,815
U.S. Mortgage Insurance	2,367	2,324
U.S. Life Insurance	84,209	82,906
International Protection	1,657	1,833
Runoff	12,884	12,971
Corporate and Other	3,016	2,509
Total assets	$ 112,331	$ 111,358

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(9) 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, 2015	$ 2,453	$ 2,070	$ (77)	$ 4,446
OCI before reclassifications	325	195	(370)	150
Amounts reclassified from (to) OCI		(18)		(18)
Current period OCI	325	177	(370)	132
Balances as of March 31, 2015 before noncontrolling interests	2,778	2,247	(447)	4,578
Less: change in OCI attributable to noncontrolling interests	30		(144)	(114)
Balances as of March 31, 2015	$ 2,748	$ 2,247	$ (303)	$ 4,692

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

(2) See note 5 for additional information.

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

Balances as of January 1, 2014	$ 926	$ 1,319	$ 297	$ 2,542
OCI before reclassifications	701	228	(21)	908
Amounts reclassified from (to) OCI	11	(9)		2
Current period OCI	712	219	(21)	910
Balances as of March 31, 2014 before noncontrolling interests	1,638	1,538	276	3,452
Less: change in OCI attributable to noncontrolling interests	14		(45)	(31)
Balances as of March 31, 2014	$ 1,624	$ 1,538	$ 321	$ 3,483

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

(2) See note 5 for additional information.

The foreign currency translation and other adjustments balance included $32 million and $6 million, respectively, net of taxes of $14 million and $1 million, respectively, related to a net unrecognized postretirement benefit obligation as of March 31, 2015 and 2014. Amount also included taxes of $(91) million and $33 million, respectively, related to foreign currency translation adjustments as of March 31, 2015 and 2014.

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

(Amounts in millions)	Amount reclassified from accumulated other comprehensive income (loss) Three months ended March 31, 2015	2014	Affected line item in the consolidated statements of income
Net unrealized investment (gains) losses:			
Unrealized (gains) losses on investments [1]	$	$ 17	Net investment (gains) losses
Provision for income taxes		(6)	Provision for income taxes
Total	$	$ 11	
Derivatives qualifying as hedges:			
Interest rate swaps hedging assets	$ (19)	$ (15)	Net investment income
Inflation indexed swaps	(9)	1	Net investment income
Provision for income taxes	10	5	Provision for income taxes
Total	$ (18)	$ (9)	

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

(10) Condensed Consolidating Financial Information

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

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

The condensed consolidating financial information presents the condensed consolidating balance sheet information as of March 31, 2015 and December 31, 2014, the condensed consolidating income statement

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information and the condensed consolidating comprehensive income statement information for the three months ended March 31, 2015 and 2014 and the condensed consolidating cash flow statement information for the three months ended March 31, 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.

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The following table presents the condensed consolidating balance sheet information as of March 31, 2015:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 151	$ 62,991	$ (200)	$ 62,942
Equity securities available-for-sale, at fair value			306		306
Commercial mortgage loans			6,149		6,149
Restricted commercial mortgage loans related to securitization entities			188		188
Policy loans			1,506		1,506
Other invested assets		118	2,620	(15)	2,723
Restricted other invested assets related to securitization entities, at fair value			411		411
Investments in subsidiaries	15,291	15,334		(30,625)	
Total investments	15,291	15,603	74,171	(30,840)	74,225
Cash and cash equivalents		820	4,338		5,158
Accrued investment income			742	(7)	735
Deferred acquisition costs			4,918		4,918
Intangible assets			227		227
Goodwill			15		15
Reinsurance recoverable			17,339		17,339
Other assets		281	370	(1)	650
Intercompany notes receivable	7	277	357	(641)	
Separate account assets			9,064		9,064
Total assets	$ 15,298	$ 16,981	$ 111,541	$ (31,489)	$ 112,331
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 36,488	$	$ 36,488
Policyholder account balances			26,146		26,146
Liability for policy and contract claims			8,030		8,030

Unearned premiums			3,731		3,731
Other liabilities	(2)	352	3,573	(24)	3,899
Intercompany notes payable		564	277	(841)	
Borrowings related to securitization entities			205		205
Non-recourse funding obligations			1,983		1,983
Long-term borrowings		4,151	450		4,601
Deferred tax liability	(24)	(1,016)	2,143		1,103
Separate account liabilities			9,064		9,064
Total liabilities	(26)	4,051	92,090	(865)	95,250
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	11,998	9,162	17,104	(26,266)	11,998
Accumulated other comprehensive income (loss)	4,692	4,733	4,717	(9,450)	4,692
Retained earnings	1,333	(965)	(4,132)	5,097	1,333
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	15,324	12,930	17,689	(30,619)	15,324
Noncontrolling interests			1,762	(5)	1,757
Total stockholders equity	15,324	12,930	19,451	(30,624)	17,081
Total liabilities and stockholders equity	$ 15,298	$ 16,981	$ 111,541	$ (31,489)	$ 112,331

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The following table presents the condensed consolidating balance sheet information as of December 31, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 150	$ 62,497	$ (200)	$ 62,447
Equity securities available-for-sale, at fair value			282		282
Commercial mortgage loans			6,100		6,100
Restricted commercial mortgage loans related to securitization entities			201		201
Policy loans			1,501		1,501
Other invested assets		14	2,287	(5)	2,296
Restricted other invested assets related to securitization entities, at fair value			411		411
Investments in subsidiaries	14,895	15,003		(29,898)	
Total investments	14,895	15,167	73,279	(30,103)	73,238
Cash and cash equivalents		953	3,965		4,918
Accrued investment income			689	(4)	685
Deferred acquisition costs			5,042		5,042
Intangible assets			272		272
Goodwill			16		16
Reinsurance recoverable			17,346		17,346
Other assets	2	207	425	(1)	633
Intercompany notes receivable	9	267	395	(671)	
Separate account assets			9,208		9,208
Total assets	$ 14,906	$ 16,594	$ 110,637	$ (30,779)	$ 111,358
Liabilities and stockholders equity					
Liabilities:					
Future policy benefits	$	$	$ 35,915	$	$ 35,915
Policyholder account balances			26,043		26,043
Liability for policy and contract claims			8,043		8,043

Unearned premiums			3,986		3,986
Other liabilities	3	251	3,361	(11)	3,604
Intercompany notes payable		604	267	(871)	
Borrowings related to securitization entities			219		219
Non-recourse funding obligations			1,996		1,996
Long-term borrowings		4,151	488		4,639
Deferred tax liability	(20)	(970)	1,898		908
Separate account liabilities			9,208		9,208
Total liabilities	(17)	4,036	91,424	(882)	94,561
Stockholders equity:					
Common stock	1				1
Additional paid-in capital	11,997	9,162	17,080	(26,242)	11,997
Accumulated other comprehensive income (loss)	4,446	4,449	4,459	(8,908)	4,446
Retained earnings	1,179	(1,053)	(4,205)	5,258	1,179
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	14,923	12,558	17,334	(29,892)	14,923
Noncontrolling interests			1,879	(5)	1,874
Total stockholders equity	14,923	12,558	19,213	(29,897)	16,797
Total liabilities and stockholders equity	$ 14,906	$ 16,594	$ 110,637	$ (30,779)	$ 111,358

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the three months ended March 31, 2015:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,323	$	$ 1,323
Net investment income			807	(4)	803
Net investment gains (losses)		3	(19)		(16)
Insurance and investment product fees and other		(9)	234		225
Total revenues		(6)	2,345	(4)	2,335
Benefits and expenses:					
Benefits and other changes in policy reserves			1,243		1,243
Interest credited			180		180
Acquisition and operating expenses, net of deferrals	5	1	374		380
Amortization of deferred acquisition costs and intangibles			121		121
Interest expense		77	43	(4)	116
Total benefits and expenses	5	78	1,961	(4)	2,040
Income (loss) before income taxes and equity in income of subsidiaries	(5)	(84)	384		295
Provision (benefit) for income taxes	(9)	(29)	129		91
Equity in income of subsidiaries	150	143		(293)	
Net income	154	88	255	(293)	204
Less: net income attributable to noncontrolling interests			50		50
Net income available to Genworth Financial, Inc. s common stockholders	$ 154	$ 88	$ 205	$ (293)	$ 154

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating income statement information for the three months ended March 31, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 1,307	$	$ 1,307
Net investment income			809	(4)	805
Net investment gains (losses)		(4)	(13)		(17)
Insurance and investment product fees and other			227		227
Total revenues		(4)	2,330	(4)	2,322
Benefits and expenses:					
Benefits and other changes in policy reserves			1,194		1,194
Interest credited			183		183
Acquisition and operating expenses, net of deferrals	7		371		378
Amortization of deferred acquisition costs and intangibles			134		134
Interest expense		84	47	(4)	127
Total benefits and expenses	7	84	1,929	(4)	2,016
Income (loss) before income taxes and equity in income of subsidiaries	(7)	(88)	401		306
Provision (benefit) for income taxes	10	(46)	123		87
Equity in income of subsidiaries	201	202		(403)	
Net income	184	160	278	(403)	219
Less: net income attributable to noncontrolling interests			35		35
Net income available to Genworth Financial, Inc. s common stockholders	$ 184	$ 160	$ 243	$ (403)	$ 184

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating comprehensive income statement information for the three months ended March 31, 2015:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 154	$ 88	$ 255	$ (293)	$ 204
Other comprehensive income (loss), net of taxes:					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	293	275	323	(568)	323
Net unrealized gains (losses) on other-than-temporarily impaired securities	2	2	2	(4)	2
Derivatives qualifying as hedges	177	177	189	(366)	177
Foreign currency translation and other adjustments	(226)	(170)	(370)	396	(370)
Total other comprehensive income (loss)	246	284	144	(542)	132
Total comprehensive income (loss)	400	372	399	(835)	336
Less: comprehensive income attributable to noncontrolling interests			(64)		(64)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 400	$ 372	$ 463	$ (835)	$ 400

The following table presents the condensed consolidating comprehensive income statement information for the three months ended March 31, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Net income	$ 184	$ 160	$ 278	$ (403)	$ 219
Other comprehensive income (loss), net of taxes:					
	692	675	707	(1,368)	706

Net unrealized gains (losses) on securities not other-than-temporarily impaired					
Net unrealized gains (losses) on other-than-temporarily impaired securities	6	6	6	(12)	6
Derivatives qualifying as hedges	219	219	232	(451)	219
Foreign currency translation and other adjustments	24	40	(21)	(64)	(21)
Total other comprehensive income (loss)	941	940	924	(1,895)	910
Total comprehensive income (loss)	1,125	1,100	1,202	(2,298)	1,129
Less: comprehensive income attributable to noncontrolling interests			4		4
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 1,125	$ 1,100	$ 1,198	$ (2,298)	$ 1,125

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the three months ended March 31, 2015:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 154	$ 88	$ 255	$ (293)	$ 204
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(150)	(143)		293	
Dividends from subsidiaries		132	(132)		
Amortization of fixed maturity securities discounts and premiums and limited partnerships			(17)		(17)
Net investment losses (gains)		(3)	19		16
Charges assessed to policyholders			(196)		(196)
Acquisition costs deferred			(110)		(110)
Amortization of deferred acquisition costs and intangibles			121		121
Deferred income taxes	(5)	(40)	84		39
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments		9	9		18
Stock-based compensation expense	2		(4)		(2)
Change in certain assets and liabilities:					
Accrued investment income and other assets	2	(7)	(73)	3	(75)
Insurance reserves			614		614
Current tax liabilities	(4)	66	(65)		(3)
Other liabilities, policy and contract claims and other policy-related balances		(60)	88	(13)	15
Net cash from operating activities	(1)	42	593	(10)	624
Cash flows from investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			1,153		1,153

Commercial mortgage loans			198		198
Restricted commercial mortgage loans related to securitization entities			13		13
Proceeds from sales of investments:					
Fixed maturity and equity securities			420		420
Purchases and originations of investments:					
Fixed maturity and equity securities			(1,839)		(1,839)
Commercial mortgage loans			(247)		(247)
Other invested assets, net		(100)	26	10	(64)
Intercompany notes receivable	2	(10)	38	(30)	
Capital contributions to subsidiaries		(25)	25		
Net cash from investing activities	2	(135)	(213)	(20)	(366)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			630		630
Withdrawals from universal life and investment contracts			(527)		(527)
Redemption of non-recourse funding obligations			(13)		(13)
Repayment of borrowings related to securitization entities			(11)		(11)
Dividends paid to noncontrolling interests			(54)		(54)
Proceeds from intercompany notes payable		(40)	10	30	
Other, net	(1)		11		10
Net cash from financing activities	(1)	(40)	46	30	35
Effect of exchange rate changes on cash and cash equivalents			(53)		(53)
Net change in cash and cash equivalents		(133)	373		240
Cash and cash equivalents at beginning of period		953	3,965		4,918
Cash and cash equivalents at end of period	$	$ 820	$ 4,338	$	$ 5,158

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating cash flow statement information for the three months ended March 31, 2014:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 184	$ 160	$ 278	$ (403)	$ 219
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(201)	(202)		403	
Dividends from subsidiaries		31	(31)		
Amortization of fixed maturity securities discounts and premiums and limited partnerships			(28)		(28)
Net investment losses (gains)		4	13		17
Charges assessed to policyholders			(187)		(187)
Acquisition costs deferred			(119)		(119)
Amortization of deferred acquisition costs and intangibles			134		134
Deferred income taxes	11	(84)	90		17
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments		1	25		26
Stock-based compensation expense	5		3		8
Change in certain assets and liabilities:					
Accrued investment income and other assets	3	50	(158)	(4)	(109)
Insurance reserves			550		550
Current tax liabilities	4	16	(202)		(182)
Other liabilities, policy and contract claims and other policy-related balances	(10)		(279)	4	(285)
Net cash from operating activities	(4)	(24)	89		61
Cash flows from investing activities:					
Proceeds from maturities and repayments of investments:					
Fixed maturity securities			1,135		1,135

Commercial mortgage loans			139		139
Restricted commercial mortgage loans related to securitization entities			7		7
Proceeds from sales of investments:					
Fixed maturity and equity securities			708		708
Purchases and originations of investments:					
Fixed maturity and equity securities			(2,172)		(2,172)
Commercial mortgage loans			(132)		(132)
Other invested assets, net			111		111
Intercompany notes receivable	6	(11)	61	(56)	
Net cash from investing activities	6	(11)	(143)	(56)	(204)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			814		814
Withdrawals from universal life and investment contracts			(505)		(505)
Redemption of non-recourse funding obligations			(8)		(8)
Repayment of borrowings related to securitization entities			(7)		(7)
Dividends paid to noncontrolling interests			(13)		(13)
Proceeds from intercompany notes payable		(66)	10	56	
Other, net	(2)		(10)		(12)
Net cash from financing activities	(2)	(66)	281	56	269
Effect of exchange rate changes on cash and cash equivalents			20		20
Net change in cash and cash equivalents		(101)	247		146
Cash and cash equivalents at beginning of period		1,219	2,995		4,214
Cash and cash equivalents at end of period	$	$ 1,118	$ 3,242	$	$ 4,360

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Our insurance company subsidiaries are restricted by state and foreign laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders and contractholders, not stockholders. Any dividends in excess of limits are deemed extraordinary and require approval. Based on estimated statutory results as of December 31, 2014, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $0.5 billion to us in 2015 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $0.5 billion is unrestricted, we do not expect our insurance subsidiaries to pay dividends to us in 2015 at this level as they retain capital for growth and to meet capital requirements and desired thresholds. As of March 31, 2015, Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $14.8 billion and $14.9 billion, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included herein and with our 2014 Annual Report on Form 10-K.

Cautionary note regarding forward-looking statements

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

Risks relating to all of our businesses, including:

(i) inability to successfully develop and execute strategic plans to effectively address our current business challenges (including with respect to our long-term care insurance business, ratings and capital), including as a result of failure to attract buyers for our lifestyle protection insurance business and any other businesses or other assets we may seek to sell, or securities we may seek to issue, in each case, in a timely manner on anticipated terms; inability to generate required capital; failure to obtain any required regulatory, stockholder and/or noteholder approvals or consents, or our challenges changing or being more costly or difficult to successfully address than currently anticipated or the benefits achieved being less than anticipated; inability to achieve anticipated cost-savings in a timely manner; adverse tax or accounting charges; (ii) inability to increase the capital needed in our businesses in a timely manner and on anticipated terms, including through improved business performance, reinsurance or similar transactions, asset sales, securities offerings or otherwise, in each case as and when required; (iii) inadequate reserves and the need to increase reserves, including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with periodic or other reviews (including as a result of our actual experience differing significantly from our assumptions); (iv) ineffective or inadequate risk management in identifying, controlling or mitigating risks; weaknesses in, or ineffective, internal controls; (v) recent or future adverse rating agency actions, including with respect to rating downgrades or potential downgrades, being placed on negative outlook or being put on review for potential downgrade, all of which could have adverse implications for us, including with respect to key business relationships, product offerings, business results of operations, financial condition and capital needs, strategic plans, collateral obligations and availability and terms of hedging, reinsurance and borrowings; (vi) inability to retain, attract and motivate qualified employees and independent sales representatives, particularly in the light of our recent business challenges; (vii) adverse change in regulatory requirements, including risk-based capital; (viii) dependence on dividends and other distributions from our subsidiaries (particularly our international subsidiaries) and the inability of any subsidiaries to pay dividends or make other distributions to us, including as a result of the performance of our subsidiaries and insurance, regulatory or corporate law restrictions (including the unwillingness or inability of the subsidiary that indirectly owns most of the interests in our Australian and Canadian mortgage insurance businesses to pay the dividends that it receives from those businesses as a result of the impact on its financial condition of its guarantee of certain long-term care insurance related reinsurance arrangements); (ix) inability to borrow under our credit facility; (x) downturns and volatility in global economies and equity and credit markets; (xi) interest rates and changes in rates; (xii) availability, affordability and adequacy of reinsurance to protect us against losses; (xiii) defaults by counterparties to reinsurance arrangements or derivative instruments; (xiv) changes in valuation of fixed maturity, equity and trading securities; (xv) defaults or other events impacting the value of our fixed maturity securities portfolio; (xvi) defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance; (xvii) competition; (xviii) reliance on, and loss of, key distribution relationships; (xix) extensive regulation of our businesses and changes in applicable laws and regulations; (xx) litigation and regulatory investigations or other actions (including the two shareholder putative class action lawsuits alleging securities law violations filed against us in 2014); (xxi) the material weakness in our internal control over financial reporting; (xxii) failure or any compromise of the security of our computer systems, disaster recovery systems and business continuity plans and failures to safeguard, or breaches of, our confidential information; (xxiii) occurrence of natural or man-made disasters or a pandemic; (xxiv) impact of additional regulations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); (xxv) changes in accounting and reporting standards; (xxvi) impairments of or valuation allowances against our deferred tax assets; (xxvii) accelerated amortization of deferred acquisition costs and present value of future profits (including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with periodic or other reviews); (xxviii) political and economic instability or changes in government policies; and (xxix) fluctuations in foreign currency exchange rates and international securities markets;

Risks relating primarily to our mortgage insurance businesses, including: (i) deterioration in economic conditions or a decline in home prices that adversely affect our loss experience in mortgage insurance; (ii) premiums for the significant portion of our international mortgage insurance risk in-force with high loan-to-value ratios may not be sufficient to compensate us for the greater risks associated with those policies; (iii) competition in our international and U.S. mortgage insurance businesses, including from government and government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; (iv) changes in regulations adversely affecting our international operations; (v) inability to meet the private mortgage insurance eligibility requirements (PMIERs) on the contemplated timetable with the contemplated funding; (vi) inability of our U.S. mortgage insurance subsidiaries to meet minimum statutory capital requirements and hazardous financial condition standards; (vii) the influence of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and a small number of large mortgage lenders on the U.S. mortgage insurance market and adverse changes to the role or structure of Fannie Mae and Freddie Mac; (viii) increases in U.S. mortgage insurance default rates; (ix) inability to realize anticipated benefits of our rescissions, curtailments, loan modifications or other similar programs in our U.S. mortgage insurance business; (x) problems associated with foreclosure process defects in the United States that may defer claim payments; (xi) competition with GSEs may put us at a disadvantage on pricing and other terms and conditions; (xii) adverse changes in regulations affecting our U.S. mortgage insurance business; (xiii) decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations in the United States; (xiv) increases in the use of alternatives to private mortgage insurance in the United States and reductions in the level of coverage selected; and (xv) potential liabilities in connection with our U.S. contract underwriting services;

Risks relating primarily to our long-term care insurance, life insurance and annuities businesses, including: (i) our inability to increase sufficiently, and in a timely manner, premiums on in-force long-term care insurance policies and/or reduce in-force benefits, and charge higher premiums on new policies, in each case, as currently anticipated (including the future increases assumed in connection with the completion of our margin reviews in the fourth quarter of 2014) and as may be required from time to time in the future (including as a result of our failure to obtain any necessary regulatory approvals or unwillingness or inability of policyholders to pay increased premiums); our inability to reflect future premium increases and other management actions in our margin calculation as anticipated; (ii) failure to sufficiently increase demand for our long-term care insurance, life insurance and fixed annuity

products; (iii) adverse impact on our financial results as a result of projected profits followed by projected losses (as is currently the case with our long-term care insurance business); (iv) deviations from our persistency assumptions used to price and establish reserves for our insurance policies and annuity contracts; (v) medical advances, such as genetic research and diagnostic imaging, and related legislation that impact policyholder behavior in ways adverse to us; and (vi) inability to continue to implement actions to mitigate the impact of statutory reserve requirements;

Other risks, including:
(i) the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and (ii) provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

Risks relating to our common stock, including:
(i) the continued suspension of payment of dividends; and (ii) stock price fluctuations.

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

Overview

Our business

We are dedicated to helping meet the homeownership, insurance and retirement needs of our customers, with a presence in more than 25 countries. We operate through three divisions: Global Mortgage Insurance, U.S. Life Insurance and Corporate and Other. Under these divisions, there are five operating business segments. The Global Mortgage Insurance Division includes the International Mortgage Insurance and U.S. Mortgage Insurance segments. The U.S. Life Insurance Division includes the U.S. Life Insurance segment. The Corporate and Other Division includes the International Protection and Runoff segments and Corporate and Other activities. We have the following operating segments:

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

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

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

International Protection. We provide payment protection coverages (referred to as lifestyle protection) in multiple European countries and have operations in select other countries. Our lifestyle protection insurance products primarily help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

Runoff. The Runoff segment includes the results of non-strategic products which are no longer actively sold. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). We no longer offer retail and group variable annuities but continue to service our existing blocks of business.

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

Strategic Update

As previously disclosed, in the fourth quarter of 2014, we commenced a review of a broad range of strategic options to maximize long-term stockholder value. In assessing our options, we are considering, among other factors, the level of, and restrictions contained in, our existing indebtedness, tax considerations, the views of regulators and rating agencies, and the performance and prospects of our businesses.

We continue to make progress on our review of strategic options in order to position us for the future and are actively engaged in three areas: (1) strengthening our mortgage insurance businesses and the capital, earnings and sales of our long-term care insurance business; (2) simplifying our business portfolio with a focus on our life insurance and annuity businesses and our Australian mortgage insurance business; and (3) increasing our financial strength and flexibility through initiatives such as a multi-step restructuring plan targeting cash savings in excess of $100 million over the next two years as well as reducing holding company debt levels. In addition, we continue to pursue the planned sale of our lifestyle protection insurance business, which had previously been designated as a non-core business for us. We are reviewing a broad range of strategic options that we believe will, if completed, improve our ability to reduce holding company debt levels, increase capital buffers in our long-term care insurance business, support capital needs of our U.S. mortgage insurance business, improve operating returns and maintain targeted levels of holding company cash.

In addition, as disclosed on April 17, 2015, we estimate our U.S. mortgage insurance business will require additional capital of $500 million to $700 million to be fully compliant with the final PMIERs by the effective date of December 31, 2015. We intend to take the necessary steps so that our U.S. mortgage insurance business will comply with the final PMIERs by the effective date. The outcome of the review of our strategic options and the implementation of any decisions based on the review, in combination with our assessment of reinsurance cost and capacity, among other factors, will determine the mix of reinsurance and holding company cash we will use to meet the capital requirements of the final PMIERs.

Business trends and conditions

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

General conditions and trends affecting our businesses

Financial and economic environment. The stability of both the financial markets and global economies in which we operate impacts the sales, revenue growth and profitability trends of our businesses. During 2014 and into the first quarter of 2015, the U.S. and several international financial markets have been impacted by concerns regarding global economies and the rate and strength of recovery, particularly given recent political and geographical events in Eastern Europe and the Middle East and slow growth in China, as well as continued decreases in oil prices.

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While the U.S. housing market continues to recover with home affordability above historical levels in certain regions, an increase in mortgage interest rates more broadly in the future may slow the overall housing recovery. Unemployment and underemployment levels in the United States decreased in 2014 and through the first quarter of 2015 and we expect unemployment and underemployment levels in the United States to gradually continue to decrease over time. In Canada, the housing market improved in 2014 and during the first quarter of 2015 driven by continued low interest rates that have maintained affordability as home prices increased. The Canadian unemployment rate increased slightly in the first quarter of 2015 and we expect job creation to remain steady but modest with unemployment expected to marginally increase in 2015 over 2014 levels. In Australia, the overall housing market generally improved as modest economic growth and low interest rates persisted. The unemployment rate in Australia at the end of the first quarter of 2015 remained consistent with the end of 2014 and we expect the unemployment rate to be relatively stable through 2015 as the economy continues to transition away from being commodity focused, impacting investment levels and mix in the economy. The Chinese economy had experienced significant growth over the past decade. This growth slowed during 2013 and into 2014 and the new Chinese administration began to implement economic and credit market reforms. Gross domestic product growth in China in 2014 and the first quarter of 2015 was significantly lower than growth over the last decade with the slowest growth in the past five years being in the first quarter of 2015. Given the relative size of the Chinese economy, the impact of a significant change in the pace of economic expansion in China could impact global economies, partly as a result of lower commodity imports, particularly those from the Asia Pacific region, including Australia. Europe remained a challenging region with slow growth or a declining economic environment with lower lending activity and reduced consumer spending, particularly in Greece, Spain, Portugal, Ireland and Italy. While certain areas within Europe showed a modest level of improvement during 2014 and into 2015 with consumer lending levels stabilizing, we expect future economic growth in Europe to be modest. Additionally, Germany s economy could be impacted by the ongoing conflict in the Ukraine and sanctions imposed on Russia, which could negatively impact other European markets. See Trends and conditions affecting our segments below for a discussion regarding the impacts the financial markets and global economies have on our businesses.

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

The U.S. and international governments, the Federal Reserve, other central banks and other legislative and regulatory bodies have taken certain actions to support the economy and capital markets, influence interest rates, influence housing markets and mortgage servicing and provide liquidity to promote economic growth. These include various mortgage restructuring programs implemented or under consideration by the GSEs, lenders, servicers and the U.S. government. Outside of the United States, various governments and central banks have taken and continue to take actions to stimulate economies, stabilize financial systems and improve market liquidity. In aggregate, these actions had a positive effect in the short term on these countries and their markets; however, there can be no assurance as to the future impact these types of actions may have on the economic and financial markets, including levels of volatility. A delayed economic recovery period, a U.S. or global recession or regional or global financial crisis could materially and adversely affect our business, financial condition and results of operations.

Investments and derivatives

Investments credit and investment markets

Global yields declined in the first quarter of 2015 following official rate cuts by several foreign central banks coupled with the launch of quantitative easing by the European Central Bank. Mixed economic data in the United States led the bond market to price in a Federal Funds target rate rise later in 2015. Moreover, the Federal Reserve Open Market Committee lowered its median forward fund rate projections. The U.S. dollar continued to strengthen against most major foreign currencies, a trend which began in mid-2014. Oil and metal prices were volatile, but began to stabilize by the end of the first quarter of 2015.

There was little change in the credit spreads for most fixed-income asset classes during the first quarter of 2015, although the high yield and emerging markets sectors displayed heightened volatility caused by oil price fluctuations. Energy sector spreads tightened later in the first quarter of 2015 as oil prices stabilized.

Declines in interest rates and credit spreads have increased the value of our investments and derivatives, resulting in increases in net unrealized investment gains on securities of $325 million and derivatives qualifying as hedges of $177 million in other comprehensive income (loss) for the three months ended March 31, 2015. Economic conditions will continue to impact the valuation of our investment portfolios and the amount of other-than-temporary impairments.

Looking ahead, we view the current credit environment as generally stable and expect corporate defaults to remain relatively low. Prolonged weakness in oil prices could continue to pressure smaller or highly leveraged energy companies, such as those in Russia, and some emerging market companies. We have an energy portfolio of $4.7 billion, or 5.8% of invested assets, with 92% of these securities rated investment grade and 8% rated in the BB rating category. Our energy portfolio consists of securities in gas pipelines, integrated energy, independent energy, oil field services and refining companies. While we will likely see downgrades in this sector, we currently believe our energy portfolio is well-positioned and we would expect a minimal capital impact on our U.S. life insurance subsidiaries.

We believe the current credit environment provides us with opportunities to invest across a variety of asset classes including expanding into a small allocation of alternative assets, but we anticipate our returns will continue to be pressured primarily because of low interest rates. See Investments and Derivative Instruments for additional information on our investment portfolio.

Derivatives

We have taken several actions to mitigate the risk to our derivatives portfolio arising from our counterparties right to terminate their derivatives transactions with us following ratings downgrades. As of March 31, 2015, we have negotiated amendments to master swap agreements governing $6.2 billion notional of our derivatives portfolio, as a result of which the current ratings of Genworth Holdings and our life insurance subsidiaries are at least one-notch above the level at which counterparties could terminate the transactions under those agreements. As of March 31, 2015, we have moved $8.4 billion notional of our derivatives portfolio from bilateral over-the-counter agreements to clearing through the Chicago Mercantile Exchange (CME), which has required us to post initial margin of $105 million to CME through our clearing agents. The customer agreements that govern our cleared derivatives contain provisions that enable our clearing agents to request initial margin in excess of CME requirements. So far, they have not done so, but may do so in the future. Because our clearing agent serves as a guarantor of our obligations to the CME, the termination provisions in customer agreements are not dependent on ratings. As of March 31, 2015, we continue to have $4.8 billion notional of bilateral over-the-counter derivatives under master swap agreements where the counterparty has the right to terminate all of its transactions with us based on our current ratings but has not done so. With respect to those agreements, we are continuing to evaluate if additional actions to modify our master swap agreements or to replace current positions with new transactions are beneficial and possible at this time.

Trends and conditions affecting our segments

International Mortgage Insurance

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

Canada and Australia comprise approximately 99% of our international mortgage insurance primary risk in-force. These established markets will continue to be key drivers of revenues and earnings in our international mortgage insurance business. During 2014 and continuing into the first quarter of 2015, the U.S. dollar strengthened against many foreign currencies, in particular the Canadian dollar and Australian dollar, which negatively impacted the underlying reported results of our international mortgage insurance business. Any future movement in foreign exchange rates could impact future results.

Canada. In Canada, the housing market improved in 2014 and into the first quarter of 2015 driven by continued low interest rates that maintained affordability as home prices increased. The unemployment rate increased slightly in the first quarter of 2015 closing at 6.8% after ending at 6.6% in 2014. We expect job creation to remain steady but modest with unemployment expected to marginally increase as we progress through 2015 primarily driven by concerns of decreasing oil prices and its impact to the oil producing provinces of Canada. In response to the recent sharp drop in oil prices, the Bank of Canada decreased the overnight interest rate to 0.75% in January 2015, with the expectation that the low interest rate environment will continue through 2015.

Home sales in Canada increased 5% in 2014, with tight supply continuing to pressure prices in select urban markets with the resale market remaining at or near balanced market conditions. We expect a slight increase in resale activity as the housing market moderates in 2015 and we expect national home prices to increase slightly as we progress through 2015. Going forward, we expect the growth rate of the high loan-to-value market to keep pace with the change in housing resale activity and home price appreciation.

According to the Bank of Canada, economic growth as measured by the Canadian gross domestic product stalled in the first quarter of 2015, but the Bank of Canada still expects growth of 1.9% for 2015. We expect the Canadian gross domestic product growth in 2015 to be fueled by a stronger U.S. economy and a weaker Canadian dollar that benefits exports in Central Canada and British Columbia, offset by the negative impact of lower oil prices. The recent decline in oil prices is an emerging risk due to its potential impact on employment and housing, especially in the provinces of Alberta, Newfoundland and Saskatchewan. We will continue to monitor the impact of oil prices as part of our proactive portfolio risk management strategy.

In the 2013 federal budget, the Canadian government proposed to gradually limit the insurance of low loan-to-value mortgages to only those mortgages that will be used in the Canada Mortgage and Housing Corporation (CMHC) securitization programs. In addition, the Canadian government has indicated an intention to prohibit the use of any taxpayer-backed insured mortgage, both high and low loan-to-value, as collateral in securitization vehicles that are not sponsored by CMHC. We anticipate the related legislation will be introduced in 2015. On December 1, 2014, CMHC announced a price increase to its National Housing Act Mortgage-Backed Securities (NHA MBS) guarantee fees effective April 1, 2015. Under the NHA MBS Program, CMHC guarantees timely payment of principal and interest to purchasers of the mortgage-backed securities backed by pools of eligible insured mortgages. The NHA MBS fees are paid by lenders in addition to the mortgage insurance premium. Although it is difficult to determine the full impact of these changes at this time, we believe the changes will decrease demand for low loan-to-value mortgage insurance.

On April 2, 2015, CMHC announced that as a result of its annual review of its insurance products and capital requirements it is increasing mortgage insurance premiums by 15% for homebuyers with less than a 10%

down payment effective June 1, 2015. Genworth MI Canada Inc. (Genworth Canada) announced subsequently that it will also increase price by 15% for homebuyers with less than a 10% down payment effective June 1, 2015, which currently represents about 65% of its new insurance written.

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

Australia. In Australia, the overall economy continued to expand during 2014 and into the first quarter of 2015, though at a more modest pace than in prior years, with ongoing evidence of variation in economic activity across sectors and regions. At the same time, housing activity improved primarily from sustained low interest rates. We experienced higher new delinquencies and lower cures in Australia, which was consistent with normal seasonal variation we would expect in the first quarter. The unemployment rate was 6.1% at the end of the first quarter 2015 after reaching a 12 year high of 6.3% in 2014. We expect unemployment to be relatively stable or to move modestly upward as we progress through 2015 as the economy continues to transition away from being commodity focused, impacting investment levels and mix in the economy.

The Australian housing market continued to improve into the first quarter of 2015, with home values 7.4% higher than a year ago. The Sydney housing market continues to be the major driver with an annual growth rate of 13.9%. We expect home prices in 2015 will continue to rise, albeit at subdued levels, due to strong immigration, limited housing supply and the record low interest rates supporting improved affordability.

The Reserve Bank of Australia reduced the official cash rate from 2.50% to 2.25% in February 2015 as Australian economic conditions are somewhat weaker than expected. The Reserve Bank of Australia expect the current reduction to add further support to demand, to foster sustainable growth and inflation outcomes consistent with their targets.

In December 2013, the Australian government announced that there would be an inquiry into Australia s financial system. The Financial System Inquiry (FSI) made a number of recommendations, which were released by the Australian government in December 2014. The FSI has recommended, among other things, that capital levels for internal ratings-based authorized deposit-taking institutions (ADIs) be raised against residential real estate risks. The FSI has also recommended narrowing the average risk-weight gap between average risk-weights for the internal ratings-based ADIs and other ADIs to help competition. In releasing the FSI s recommendations, the Australian Treasurer commented that the FSI s recommendations on bank capital are for the Australian Prudential Regulation Authority and the Reserve Bank of Australia to consider as independent regulators. At this time, it is difficult to determine the impact of these recommendations.

In February 2015, one of our three largest customers in Australia notified us that it was terminating its relationship with respect to new business effective May 2015. For the year ended December 31, 2014, this customer represented 10% and 14% of new insurance written and gross written premiums, respectively. The term of the current supply and service contract with our largest customer expires on December 31, 2016, unless it is terminated earlier in certain circumstances, including, among other things, a downgrade of the financial strength rating of our principal mortgage insurance subsidiary in Australia by Standard & Poor s Financial Services, LLC (S&P) to below A- (subject to certain exceptions). The term of the current supply and service contract with our next remaining largest customer in Australia expires on September 30, 2015. This contract may be terminated by either party by giving 90 days written notice. We are responding to the customer s request for proposal to bid on the contract renewal.

Other Countries. The overall economic environment in Europe remains fragile as unemployment is just below record highs and we expect future economic growth to be modest. We are seeing a slow resurgence in high loan-to-value lending in our target countries in Europe as lenders begin to slowly reenter these markets for the first time since the global financial crisis. As a result of the lingering economic recession, we have seen an elevated number of delinquencies and lower cures in our older books of business, most notably in Ireland, contributing to higher losses over the last few years. However, these books are well seasoned now and as a result we saw a reduction in net new delinquencies on these books during 2014 and into the first quarter of 2015. Even though our newer books of business are less seasoned, they are performing well in comparison to pricing expectations. In the fourth quarter of 2014, lender settlements reduced active delinquencies by approximately 40% and capped our exposure in Ireland to approximately $60 million or about 3% of our total outstanding risk in-force in Europe. As we progress through 2015, we expect to continue our strategy of writing new business in Italy, Finland, Germany and the United Kingdom.

U.S. Mortgage Insurance

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

We believe that the level of private mortgage insurance industry market penetration and eventual market size will continue to be affected by any actions taken by the GSEs, the Federal Housing Administration (the FHA), the Federal Housing Finance Agency (the FHFA), U.S. Congress or the U.S. government impacting housing or housing finance policy. Over time, these actions have included announced changes, or potential changes to, underwriting standards, FHA pricing, GSE guaranty fees and loan limits and low-down-payment programs available through the FHA or GSEs. In this regard, several actions have taken place recently. As previously disclosed, in October 2014, U.S. federal regulators published a final rule regarding the credit risk retention provision under the Dodd-Frank Act. The revised rules propose to define qualified residential mortgages to include low-down-payment mortgage loans, which is consistent with the definition of qualified mortgages that is already adopted by the Consumer Financial Protection Bureau (CFPB). These rules have had a limited impact on our business. In December 2014, Fannie Mae and Freddie Mac announced that they would resume purchases of certain loans with down payments as low as 3%. This change in policy could result in the GSEs purchasing more loans with private mortgage insurance. In January 2015, the FHA announced a reduction in annual mortgage insurance premiums charged to borrowers. This premium cut makes the FHA more competitive relative to private mortgage insurance and may have a material adverse effect on private mortgage insurers ability to sustain market share. Lastly, on April 17, 2015, the FHFA issued a final decision regarding changes to existing GSE fees. These changes have not increased the base GSE guaranty fees at this time and instead change loan-level price adjustments on loans by eliminating existing adverse market charges. At the same time, the GSEs are applying targeted and small fee adjustments to a subset of GSE loans. These adjustments include small fee increases for certain loans in the GSE upfront loan-to-value ratio and credit score pricing grid and for certain loans with risk-layering attributes, including, cash-out refinancing loans, investment property loans, loans with secondary financing and jumbo conforming loans. Currently, we believe these changes

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to GSE fees and loan-level price adjustments will not have a material impact on mortgage originations or the competitiveness of private mortgage insurance versus that of FHA insurance.

In addition to the actions described above, in December 2013, the FHFA issued for comment a proposal to reduce GSE loan limits. We filed a comment letter in March 2014 in response to that proposal and to date the FHFA has not yet issued a final determination. If implemented, lower loan limits could also limit demand for mortgage loans with private mortgage insurance coverage.

Mortgage originations were down in the first quarter of 2015 as a result of expected seasonal trends, purchase origination levels were higher in the quarter year over year. In addition, mortgage originations from refinancing activities were higher in the first quarter of 2015 as a result of a decrease in mortgage interest rates during the period. These lower mortgage interest rates are expected to increase gradually throughout 2015, and as a result, we would expect refinancing activities to return to levels below those we experienced in the first quarter of 2015. Accordingly, we continue to believe that, as the mortgage originations market moves from the higher level of refinancing activities to that of a larger purchase originations market, the private mortgage insurance industry market share will continue to strengthen over time. As of the end