GENWORTH FINANCIAL INC
Form 10-Q
April 29, 2016
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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, 2016

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

As of April 21, 2016, 498,470,047 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, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 60,290	$ 58,197
Equity securities available-for-sale, at fair value	431	310
Commercial mortgage loans	6,179	6,170
Restricted commercial mortgage loans related to securitization entities	155	161
Policy loans	1,565	1,568
Other invested assets	2,923	2,309
Restricted other invested assets related to securitization entities, at fair value	422	413
Total investments	71,965	69,128
Cash and cash equivalents	4,043	5,965
Accrued investment income	720	653
Deferred acquisition costs	4,235	4,398
Intangible assets and goodwill	291	357
Reinsurance recoverable	17,587	17,245
Other assets	577	520
Deferred tax asset		155
Separate account assets	7,624	7,883
Assets held for sale	131	127
Total assets	$ 107,173	$ 106,431
Liabilities and equity		
Liabilities:		
Future policy benefits	$ 36,776	$ 36,475
Policyholder account balances	26,354	26,209
Liability for policy and contract claims	8,177	8,095
Unearned premiums	3,378	3,308
Other liabilities ($42 and $46 of other liabilities are related to securitization entities)	3,596	3,004
Borrowings related to securitization entities ($85 and $81 are at fair value)	173	179

Non-recourse funding obligations	310	1,920
Long-term borrowings	4,232	4,570
Deferred tax liability	449	24
Separate account liabilities	7,624	7,883
Liabilities held for sale	131	127
Total liabilities	91,200	91,794
Commitments and contingencies		
Equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 587 million and 586 million shares issued as of March 31, 2016 and December 31, 2015, respectively; 498 million shares outstanding as of March 31, 2016 and December 31, 2015	1	1
Additional paid-in capital	11,952	11,949
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,043	1,236
Net unrealized gains (losses) on other-than-temporarily impaired securities	14	18
Net unrealized investment gains (losses)	2,057	1,254
Derivatives qualifying as hedges	2,302	2,045
Foreign currency translation and other adjustments	(174)	(289)
Total accumulated other comprehensive income (loss)	4,185	3,010
Retained earnings	617	564
Treasury stock, at cost (88 million shares as of March 31, 2016 and December 31, 2015)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	14,055	12,824
Noncontrolling interests	1,918	1,813
Total equity	15,973	14,637
Total liabilities and equity	$ 107,173	$ 106,431

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,	
	2016	**2015**
Revenues:		
Premiums	$ 794	$ 1,143
Net investment income	789	781
Net investment gains (losses)	(19)	(16)
Policy fees and other income	221	227
Total revenues	1,785	2,135
Benefits and expenses:		
Benefits and other changes in policy reserves	860	1,192
Interest credited	177	180
Acquisition and operating expenses, net of deferrals	394	267
Amortization of deferred acquisition costs and intangibles	99	95
Interest expense	105	107
Total benefits and expenses	1,635	1,841
Income before income taxes	150	294
Provision for income taxes	23	91
Income from continuing operations	127	203
Income (loss) from discontinued operations, net of taxes	(19)	1
Net income	108	204
Less: net income attributable to noncontrolling interests	55	50
Net income available to Genworth Financial, Inc. s common stockholders	$ 53	$ 154
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.14	$ 0.31
Diluted	$ 0.14	$ 0.31

Net income available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.11	$ 0.31
Diluted	$ 0.11	$ 0.31
Weighted-average common shares outstanding:		
Basic	498.0	497.0
Diluted	499.4	498.9
Supplemental disclosures:		
Total other-than-temporary impairments	$ (11)	$ (3)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(11)	(3)
Other investments gains (losses)	(8)	(13)
Total net investment gains (losses)	$ (19)	$ (16)

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, 2016	Three months ended March 31, 2015
Net income	$ 108	$ 204
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	807	323
Net unrealized gains (losses) on other-than-temporarily impaired securities	(4)	2
Derivatives qualifying as hedges	257	177
Foreign currency translation and other adjustments	216	(370)
Total other comprehensive income (loss)	1,276	132
Total comprehensive income (loss)	1,384	336
Less: comprehensive income attributable to noncontrolling interests	156	(64)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 1,228	$ 400

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN 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 equity
Balances as of December 31, 2015	$ 1	$ 11,949	$ 3,010	$ 564	$ (2,700)	$ 12,824	$ 1,813	$ 14,637
Comprehensive income (loss):								
Net income				53		53	55	108
Other comprehensive income (loss), net of taxes			1,175			1,175	101	1,276
Total comprehensive income (loss)						1,228	156	1,384
Dividends to noncontrolling interests							(52)	(52)
Stock-based compensation expense and exercises and other		3				3	1	4
Balances as of March 31, 2016	$ 1	$ 11,952	$ 4,185	$ 617	$ (2,700)	$ 14,055	$ 1,918	$ 15,973
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
Other comprehensive income (loss), net of taxes			246			246	(114)	132
						400	(64)	336

Total comprehensive income (loss)								
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

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, 2016	2015
Cash flows from operating activities:		
Net income	$ 108	$ 204
Less (income) loss from discontinued operations, net of taxes	19	(1)
Adjustments to reconcile net income to net cash from operating activities:		
Gain on sale of subsidiary	(20)	
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(38)	(21)
Net investment losses (gains)	19	16
Charges assessed to policyholders	(191)	(196)
Acquisition costs deferred	(50)	(86)
Amortization of deferred acquisition costs and intangibles	99	95
Deferred income taxes	7	25
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	21	18
Stock-based compensation expense	7	(3)
Change in certain assets and liabilities:		
Accrued investment income and other assets	(159)	(25)
Insurance reserves	36	443
Current tax liabilities	(8)	(9)
Other liabilities, policy and contract claims and other policy-related balances	406	202
Cash from operating activities held for sale		(38)
Net cash from operating activities	256	624
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	840	1,089
Commercial mortgage loans	192	198
Restricted commercial mortgage loans related to securitization entities	6	13
Proceeds from sales of investments:		
Fixed maturity and equity securities	905	418
Purchases and originations of investments:		
Fixed maturity and equity securities	(2,042)	(1,802)
Commercial mortgage loans	(200)	(247)
Other invested assets, net	34	(89)
Policy loans, net	10	

Cash from investing activities held for sale		54
Net cash from investing activities	(255)	(366)
Cash flows from financing activities:		
Deposits to universal life and investment contracts	571	630
Withdrawals from universal life and investment contracts	(517)	(527)
Redemption of non-recourse funding obligations	(1,620)	(13)
Repayment and repurchase of long-term debt	(326)	
Repayment of borrowings related to securitization entities	(10)	(11)
Dividends paid to noncontrolling interests	(52)	(54)
Other, net	13	37
Cash from financing activities held for sale		(27)
Net cash from financing activities	(1,941)	35
Effect of exchange rate changes on cash and cash equivalents (includes $ and $(4) related to businesses held for sale)	31	(53)
Net change in cash and cash equivalents	(1,909)	240
Cash and cash equivalents at beginning of period	5,993	4,918
Cash and cash equivalents at end of period	4,084	5,158
Less cash and cash equivalents held for sale at end of period	41	221
Cash and cash equivalents of continuing operations at end of period	$ 4,043	$ 4,937

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, 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 condensed consolidated financial statement and these notes thereto are, unless the context otherwise requires, to Genworth Financial on a consolidated basis.

We operate our business through the following five operating segments:

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

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

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

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

Runoff. The Runoff segment includes the results of non-strategic products which 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 and guaranteed investment contracts. We no longer offer retail and group variable annuities but continue to service our existing blocks of business.

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On December 1, 2015, we completed the sale of our lifestyle protection insurance business, which had previously been designated as a non-core business. Prior to its sale, our lifestyle protection insurance business was reported as discontinued operations and its financial position, results of operations and cash flows were separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 12 for additional information.

On October 27, 2015, we announced that Genworth Mortgage Insurance Company (GMICO), our wholly-owned indirect subsidiary, entered into an agreement to sell our European mortgage insurance business. As the held-for-sale criteria were satisfied during the fourth quarter of 2015, our European mortgage insurance business, included in Corporate and Other activities, has been reported as held for sale and its financial position is separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 12 for additional information.

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 2015 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

We have revised our condensed consolidated statement of cash flows previously reported in our Quarterly Report on Form 10-Q for the three months ended March 31, 2015 to reflect a correction related to the calculation of the change in reinsurance recoverable that impacted the lines insurance reserves and other liabilities, policy and contract claims and other policy-related balances. As a result, the change in insurance reserves decreased by $171 million and the change in other liabilities, policy and contract claims and other policy-related balances increased by $171 million. The revisions had no impact on net cash flows from operating activities or the total change in cash and cash equivalents within our condensed consolidated statement of cash flows. Additionally, there was no impact on our unaudited condensed consolidated balance sheet or unaudited condensed consolidated statement of income.

(2) Accounting Changes

Accounting Pronouncement Recently Adopted

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Accounting Pronouncements Not Yet Adopted

In March 2016, the Financial Accounting Standards Board (the FASB) issued new accounting guidance related to the accounting for stock compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for us on January 1, 2017, with early adoption permitted. We are in the process of determining the impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The guidance is effective for us on January 1, 2017, with early adoption permitted. We do not expect any significant impact from this guidance on our consolidated financial statements.

In March 2016, the FASB issued new accounting guidance related to the assessment of contingent put and call options in debt instruments. The guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The guidance is effective for us on January 1, 2017, with early adoption permitted. We are in the process of determining the impact from this guidance on our consolidated financial statements.

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

In February 2016, the FASB issued new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-to-use asset and a corresponding liability on the balance sheet. The guidance is effective for us on January 1, 2019, with early adoption permitted. We are still in the process of evaluating the impact this guidance will have on our consolidated financial statements.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended March 31, 2016		Three months ended March 31, 2015	
Weighted-average shares used in basic earnings (loss) per common share calculations		498.0		497.0
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights		1.4		1.9
Weighted-average shares used in diluted earnings (loss) per common share calculations		499.4		498.9
Income from continuing operations:				
Income from continuing operations	$	127	$	203
Less: income from continuing operations attributable to noncontrolling interests		55		50
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	$	72	$	153
Basic per common share	$	0.14	$	0.31
Diluted per common share	$	0.14	$	0.31
Income (loss) from discontinued operations:				
Income (loss) from discontinued operations, net of taxes	$	(19)	$	1
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests				
Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc. s common stockholders	$	(19)	$	1
Basic per common share	$	(0.04)	$	

Diluted per common share	$ (0.04)	$
Net income:		
Income from continuing operations	$ 127	$ 203
Income (loss) from discontinued operations, net of taxes	(19)	1
Net income	108	204
Less: net income attributable to noncontrolling interests	55	50
Net income available to Genworth Financial, Inc. s common stockholders	$ 53	$ 154
Basic per common share	$ 0.11	$ 0.31
Diluted per common share	$ 0.11	$ 0.31

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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)	**2016**	**2015**
Fixed maturity securities taxable	$ 641	$ 632
Fixed maturity securities non-taxable	3	3
Commercial mortgage loans	81	85
Restricted commercial mortgage loans related to securitization entities	2	4
Equity securities	5	4
Other invested assets	38	40
Restricted other invested assets related to securitization entities	2	1
Policy loans	35	33
Cash, cash equivalents and short-term investments	5	3
Gross investment income before expenses and fees	812	805
Expenses and fees	(23)	(24)
Net investment income	$ 789	$ 781

(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)	**2016**	**2015**
Available-for-sale securities:		
Realized gains	$ 16	$ 15
Realized losses	(23)	(12)

Net realized gains (losses) on available-for-sale securities	(7)	3
Impairments:		
Total other-than-temporary impairments	(11)	(3)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(11)	(3)
Trading securities	28	6
Commercial mortgage loans	1	2
Net gains (losses) related to securitization entities	8	8
Derivative instruments [1]	(38)	(32)
Net investment gains (losses)	$ (19)	$ (16)

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

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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, 2016 and 2015 was $240 million and $139 million, respectively, which was approximately 91% and 93%, 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)	2016	2015
Beginning balance	$ 64	$ 83
Reductions:		
Securities sold, paid down or disposed	(1)	(5)
Ending balance	$ 63	$ 78

(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, 2016	December 31, 2015
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 4,767	$ 3,140
Equity securities	(23)	(10)
Subtotal	4,744	3,130
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,439)	(1,070)
Income taxes, net	(1,153)	(711)

Net unrealized investment gains (losses)		2,152		1,349
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		95		95
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	2,057	$	1,254

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)	**2016**	**2015**
Beginning balance	$ 1,254	$ 2,453
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	1,596	943
Adjustment to deferred acquisition costs	(142)	(98)
Adjustment to present value of future profits	(34)	(20)
Adjustment to sales inducements	(19)	(15)
Adjustment to benefit reserves	(174)	(323)
Provision for income taxes	(436)	(162)
Change in unrealized gains (losses) on investment securities	791	325
Reclassification adjustments to net investment (gains) losses, net of taxes of $(6) and $	12	
Change in net unrealized investment gains (losses)	803	325
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests		30
Ending balance	$ 2,057	$ 2,748

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

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

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 5,389	$ 1,135	$	$	$	$ 6,524
State and political subdivisions	2,272	262		(17)		2,517
Non-U.S. government	1,944	138		(2)		2,080
U.S. corporate:						
Utilities	3,752	530		(13)		4,269
Energy	2,193	85		(114)		2,164
Finance and insurance	5,357	476	10	(28)		5,815
Consumer non-cyclical	3,838	522		(6)		4,354
Technology and communications	2,147	175		(22)		2,300
Industrial	1,165	82		(22)		1,225
Capital goods	1,801	254		(5)		2,050
Consumer cyclical	1,568	135		(11)		1,692
Transportation	1,035	105		(8)		1,132
Other	362	29		(3)		388
Total U.S. corporate	23,218	2,393	10	(232)		25,389
Non-U.S. corporate:						
Utilities	1,038	56		(10)		1,084
Energy	1,459	48		(70)		1,437
Finance and insurance	2,471	154		(6)		2,619
Consumer non-cyclical	735	36		(5)		766
Technology and communications	994	59		(14)		1,039
Industrial	1,047	32		(45)		1,034
Capital goods	594	31		(15)		610
Consumer cyclical	538	10		(4)		544

Transportation	561	62		(3)		620
Other	2,669	224		(17)		2,876
Total non-U.S. corporate	12,106	712		(189)		12,629
Residential mortgage-backed	4,716	403	9	(6)		5,122
Commercial mortgage-backed	2,588	133	3	(10)	(1)	2,713
Other asset-backed	3,381	12	1	(78)		3,316
Total fixed maturity securities	55,614	5,188	23	(534)	(1)	60,290
Equity securities	461	12		(42)		431
Total available-for-sale securities	$ 56,075	$ 5,200	$ 23	$ (576)	$ (1)	$ 60,721

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 5,487	$ 732	$	$ (16)	$	$ 6,203
State and political subdivisions	2,287	181		(30)		2,438
Non-U.S. government	1,910	110		(5)		2,015
U.S. corporate:						
Utilities	3,355	364		(26)		3,693
Energy	2,560	103		(162)		2,501
Finance and insurance	5,268	392	15	(43)		5,632
Consumer non-cyclical	3,755	371		(30)		4,096
Technology and communications	2,108	123		(38)		2,193
Industrial	1,164	53		(44)		1,173
Capital goods	1,774	188		(12)		1,950
Consumer cyclical	1,602	95		(22)		1,675
Transportation	1,023	75		(12)		1,086
Other	385	22		(5)		402
Total U.S. corporate	22,994	1,786	15	(394)		24,401
Non-U.S. corporate:						
Utilities	815	37		(9)		843
Energy	1,700	64		(78)		1,686
Finance and insurance	2,327	152	2	(8)		2,473
Consumer non-cyclical	746	24		(18)		752
Technology and communications	978	36		(26)		988
Industrial	1,063	19		(96)		986
Capital goods	602	19		(17)		604
Consumer cyclical	522	8		(4)		526
Transportation	559	52		(6)		605
Other	2,574	187		(25)		2,736

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

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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, 2016:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities	Fair value	Gross unrealized losses (1)	Number of securities
Description of Securities									
Fixed maturity securities:									
State and political subdivisions	$	$		$ 202	$ (17)	19	$ 202	$ (17)	19
Non-U.S. government	93	(2)	17				93	(2)	17
U.S. corporate	2,610	(141)	344	1,203	(91)	167	3,813	(232)	511
Non-U.S. corporate	1,665	(87)	209	700	(102)	102	2,365	(189)	311
Residential mortgage-backed	349	(2)	48	104	(4)	35	453	(6)	83
Commercial mortgage-backed	331	(8)	58	113	(3)	23	444	(11)	81
Other asset-backed	1,741	(36)	320	368	(42)	63	2,109	(78)	383
Subtotal, fixed maturity securities	6,789	(276)	996	2,690	(259)	409	9,479	(535)	1,405
Equity securities	136	(25)	170	59	(17)	29	195	(42)	199
Total for securities in an unrealized loss position	$ 6,925	$ (301)	1,166	$ 2,749	$ (276)	438	$ 9,674	$ (577)	1,604
% Below cost fixed maturity securities:									
<20% Below cost	$ 6,677	$ (229)	974	$ 2,410	$ (127)	362	$ 9,087	$ (356)	1,336
20%-50% Below cost	110	(44)	19	272	(120)	43	382	(164)	62
>50% Below cost	2	(3)	3	8	(12)	4	10	(15)	7
Total fixed maturity securities	6,789	(276)	996	2,690	(259)	409	9,479	(535)	1,405
% Below cost equity securities:									
<20% Below cost	83	(7)	152	12		6	95	(7)	158
20%-50% Below cost	53	(18)	18	47	(17)	23	100	(35)	41

Total equity securities	136	(25)	170	59	(17)	29	195	(42)	199
Total for securities in an unrealized loss position	$ 6,925	$ (301)	1,166	$ 2,749	$ (276)	438	$ 9,674	$ (577)	1,604
Investment grade	$ 5,974	$ (207)	892	$ 2,362	$ (172)	357	$ 8,336	$ (379)	1,249
Below investment grade (2)	951	(94)	274	387	(104)	81	1,338	(198)	355
Total for securities in an unrealized loss position	$ 6,925	$ (301)	1,166	$ 2,749	$ (276)	438	$ 9,674	$ (577)	1,604

(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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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities									
U.S. corporate:									
Utilities	$ 214	$ (9)	31	$ 101	$ (4)	16	$ 315	$ (13)	47
Energy	961	(83)	131	171	(31)	27	1,132	(114)	158
Finance and insurance	489	(9)	55	322	(19)	41	811	(28)	96
Consumer non-cyclical	128	(2)	16	124	(4)	20	252	(6)	36
Technology and communications	268	(13)	36	133	(9)	18	401	(22)	54
Industrial	195	(12)	24	102	(10)	17	297	(22)	41
Capital goods	52	(2)	11	61	(3)	8	113	(5)	19
Consumer cyclical	173	(7)	22	102	(4)	12	275	(11)	34
Transportation	83	(2)	15	78	(6)	7	161	(8)	22
Other	47	(2)	3	9	(1)	1	56	(3)	4
Subtotal, U.S. corporate securities	2,610	(141)	344	1,203	(91)	167	3,813	(232)	511
Non-U.S. corporate:									
Utilities	122	(7)	18	31	(3)	4	153	(10)	22
Energy	420	(38)	43	129	(32)	23	549	(70)	66
Finance and insurance	244	(2)	37	81	(4)	11	325	(6)	48
Consumer non-cyclical	88	(2)	8	95	(3)	9	183	(5)	17
Technology and communications	160	(5)	14	45	(9)	8	205	(14)	22
Industrial	282	(19)	42	163	(26)	23	445	(45)	65
Capital goods	68	(5)	10	41	(10)	7	109	(15)	17
Consumer cyclical	94	(4)	10				94	(4)	10
Transportation	77	(2)	11	21	(1)	3	98	(3)	14
Other	110	(3)	16	94	(14)	14	204	(17)	30
Subtotal, non-U.S. corporate securities	1,665	(87)	209	700	(102)	102	2,365	(189)	311

Total for corporate securities in an unrealized loss position	$ 4,275	$ (228)	553	$ 1,903	$ (193)	269	$ 6,178	$ (421)	822

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(Unaudited)

As indicated in the tables above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to increased market volatility, mostly concentrated in our corporate securities. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 4% as of March 31, 2016.

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

Of the $127 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 81% of the unrealized losses were related to investment grade securities as of March 31, 2016. These unrealized losses were predominantly attributable to corporate 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 5% as of March 31, 2016. See below for additional discussion related to fixed maturity securities that have been in a continuous unrealized loss position for 12 months or more with a fair value that was more than 20% below cost.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, 2016:

	Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized losses**	**Number of securities**
Fixed maturity securities:								
State and political subdivisions	$ 9	$ (3)	1%	1	$	$	%	
U.S. corporate:								
Energy	15	(7)	1	2				
Finance and insurance	10	(5)	1	1				
Total U.S. corporate	25	(12)	2	3				
Non-U.S. corporate:								
Energy	19	(7)	1	2				
Industrial	17	(6)	1	2				
Other	6	(1)		1				
Total non-U.S. corporate	42	(14)	2	5				
Structured securities:								
Other asset-backed	64	(27)	5	4				
Total structured securities	64	(27)	5	4				
Total	$ 140	$ (56)	10%	13	$	$	%	

	Below Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized**	**Number of securities**

			losses				losses	
Fixed maturity securities:								
U.S. corporate:								
Energy	$ 18	$ (7)	1%	5	$	$	%	
Finance and insurance	7	(3)	1	1				
Technology and communications	6	(2)		2				
Industrial	6	(3)	1	1				
Total U.S. corporate	37	(15)	3	9				
Non-U.S. corporate:								
Utilities	3	(2)		1				
Energy	45	(22)	4	9				
Technology and communications					3	(6)	1	2
Industrial	21	(11)	2	6				
Capital goods	3	(2)		1	5	(6)	1	2
Other	15	(5)	1	3				
Total non-U.S. corporate	87	(42)	7	20	8	(12)	2	4
Structured securities:								
Other asset-backed	8	(7)	1	1				
Total structured securities	8	(7)	1	1				
Total	$ 132	$ (64)	11 %	30	$ 8	$ (12)	2 %	4

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

Non-U.S. corporate

As indicated above, $68 million of gross unrealized losses were related to non-U.S. corporate fixed maturity securities that have been in an unrealized loss position for more than 12 months and were more than 20% below cost. Of the total unrealized losses for non-U.S. corporate fixed maturity securities, $29 million, or 43%, related to the energy sector and $17 million, or 25%, related to the industrial sector. Reduced overseas demand for oil and metals has led to a decline in commodities pricing, adversely impacting the fair value of these securities.

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

Structured Securities

Of the $34 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, none related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

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

We use our assessment of the historical performance of both the securitization trust and the underlying collateral for each security, along with third-party sources, when available, to develop our best estimate of cash flows expected to be collected. These estimates reflect projections for future delinquencies, prepayments, defaults and losses for the assets that collateralize the securitization trust and are used to determine the expected

GENWORTH FINANCIAL, INC.

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(Unaudited)

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, 2016.

Despite the considerable analysis and rigor employed on our structured securities, it is reasonably possible that the underlying collateral of these investments may 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.

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(Unaudited)

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

	Less than 12 months			**12 months or more**			**Total**		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 883	$ (16)	32	$	$		$ 883	$ (16)	32
State and political subdivisions	464	(15)	81	163	(15)	17	627	(30)	98
Non-U.S. government	366	(5)	49				366	(5)	49
U.S. corporate	5,836	(332)	817	466	(62)	83	6,302	(394)	900
Non-U.S. corporate	3,016	(170)	400	486	(117)	87	3,502	(287)	487
Residential mortgage-backed	756	(10)	88	103	(7)	38	859	(17)	126
Commercial mortgage-backed	780	(19)	116	39	(1)	13	819	(20)	129
Other asset-backed	1,944	(22)	349	336	(37)	55	2,280	(59)	404
Subtotal, fixed maturity securities	14,045	(589)	1,932	1,593	(239)	293	15,638	(828)	2,225
Equity securities	153	(23)	64				153	(23)	64
Total for securities in an unrealized loss position	$ 14,198	$ (612)	1,996	$ 1,593	$ (239)	293	$ 15,791	$ (851)	2,289
% Below cost fixed maturity securities:									
<20% Below cost	$ 13,726	$ (472)	1,877	$ 1,259	$ (78)	238	$ 14,985	$ (550)	2,115
20%-50% Below cost	319	(116)	54	316	(139)	50	635	(255)	104
>50% Below cost		(1)	1	18	(22)	5	18	(23)	6
Total fixed maturity securities	14,045	(589)	1,932	1,593	(239)	293	15,638	(828)	2,225
% Below cost equity securities:									
<20% Below cost	133	(18)	56				133	(18)	56

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

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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 corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of December 31, 2015:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities									
U.S. corporate:									
Utilities	$ 485	$ (25)	74	$ 14	$ (1)	7	$ 499	$ (26)	81
Energy	1,162	(134)	163	131	(28)	22	1,293	(162)	185
Finance and insurance	1,142	(35)	160	94	(8)	15	1,236	(43)	175
Consumer non-cyclical	836	(26)	107	51	(4)	10	887	(30)	117
Technology and communications	658	(36)	95	23	(2)	5	681	(38)	100
Industrial	476	(33)	64	44	(11)	9	520	(44)	73
Capital goods	293	(10)	48	26	(2)	4	319	(12)	52
Consumer cyclical	427	(18)	60	63	(4)	10	490	(22)	70
Transportation	273	(10)	38	20	(2)	1	293	(12)	39
Other	84	(5)	8				84	(5)	8
Subtotal, U.S. corporate securities	5,836	(332)	817	466	(62)	83	6,302	(394)	900
Non-U.S. corporate:									
Utilities	130	(6)	20	32	(3)	6	162	(9)	26
Energy	589	(48)	71	127	(30)	20	716	(78)	91
Finance and insurance	478	(7)	77	30	(1)	8	508	(8)	85
Consumer non-cyclical	261	(14)	27	37	(4)	4	298	(18)	31
Technology and communications	324	(15)	37	33	(11)	9	357	(26)	46
Industrial	495	(54)	67	110	(42)	18	605	(96)	85
Capital goods	154	(8)	22	41	(9)	9	195	(17)	31
Consumer cyclical	155	(4)	20				155	(4)	20
Transportation	147	(6)	17				147	(6)	17
Other	283	(8)	42	76	(17)	13	359	(25)	55
Subtotal, non-U.S. corporate securities	3,016	(170)	400	486	(117)	87	3,502	(287)	487

Total for corporate securities in an unrealized loss position	$ 8,852	$ (502)	1,217	$ 952	$ (179)	170	$ 9,804	$ (681)	1,387

GENWORTH FINANCIAL, INC.

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(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of March 31, 2016 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	**Amortized cost or cost**	**Fair value**
Due one year or less	$ 1,861	$ 1,879
Due after one year through five years	10,268	10,730
Due after five years through ten years	11,505	11,964
Due after ten years	21,295	24,566
Subtotal	44,929	49,139
Residential mortgage-backed	4,716	5,122
Commercial mortgage-backed	2,588	2,713
Other asset-backed	3,381	3,316
Total	$ 55,614	$ 60,290

As of March 31, 2016, $8,405 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of March 31, 2016, securities issued by finance and insurance, utilities and consumer non-cyclical industry groups represented approximately 22%, 14% and 13%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of March 31, 2016, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

(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.

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:

(Amounts in millions)	March 31, 2016 Carrying value	March 31, 2016 % of total	December 31, 2015 Carrying value	December 31, 2015 % of total
Property type:				
Retail	$ 2,118	34%	$ 2,116	34%
Industrial	1,582	25	1,562	25
Office	1,527	25	1,516	24
Apartments	445	7	465	8
Mixed use	233	4	234	4
Other	291	5	294	5
Subtotal	6,196	100%	6,187	100%
Unamortized balance of loan origination fees and costs	(2)		(2)	
Allowance for losses	(15)		(15)	
Total	$ 6,179		$ 6,170	

GENWORTH FINANCIAL, INC.

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(Amounts in millions)	March 31, 2016 Carrying value	March 31, 2016 % of total	December 31, 2015 Carrying value	December 31, 2015 % of total
Geographic region:				
Pacific	$ 1,589	26%	$ 1,581	26%
South Atlantic	1,557	25	1,574	25
Middle Atlantic	874	14	890	14
Mountain	571	9	585	10
West North Central	455	8	416	7
East North Central	382	6	386	6
West South Central	304	5	294	5
New England	269	4	268	4
East South Central	195	3	193	3
Subtotal	6,196	100%	6,187	100%
Unamortized balance of loan origination fees and costs	(2)		(2)	
Allowance for losses	(15)		(15)	
Total	$ 6,179		$ 6,170	

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

(Amounts in millions)	March 31, 2016 31 - 60 days past due	61- 90 days past due	Greater than 90 days past due	Total past due	Current	Total
Property type:						
Retail	$	$	$	$	$ 2,118	$ 2,118
Industrial	14			14	1,568	1,582
Office			5	5	1,522	1,527
Apartments					445	445
Mixed use					233	233
Other					291	291
Total recorded investment	$ 14	$	$ 5	$ 19	$ 6,177	$ 6,196

% of total commercial mortgage loans	%	%	%	%	100%	100%

	December 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	$	$	$	$	$ 2,116	$ 2,116
Industrial					1,562	1,562
Office	6		5	11	1,505	1,516
Apartments					465	465
Mixed use					234	234
Other					294	294
Total recorded investment	$ 6	$	$ 5	$ 11	$ 6,176	$ 6,187
% of total commercial mortgage loans	%	%	%	%	100%	100%

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As of March 31, 2016 and December 31, 2015, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of March 31, 2016 and December 31, 2015.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of March 31, 2016, 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, 2016 and the year ended December 31, 2015, we modified or extended 5 and 21 commercial mortgage loans, respectively, with a total carrying value of $43 million and $110 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

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, 2016	Three months ended March 31, 2015
Allowance for credit losses:		
Beginning balance	$ 15	$ 22
Charge-offs		(3)
Recoveries		
Provision		1
Ending balance	$ 15	$ 20
Ending allowance for individually impaired loans	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 15	$ 20
Recorded investment:		
Ending balance	$ 6,196	$ 6,170
Ending balance of individually impaired loans	$ 19	$ 18

Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,177	$ 6,152

As of March 31, 2016 and December 31, 2015, we had an individually impaired commercial mortgage loan included within the office property type with a recorded investment of $5 million, an unpaid principal balance of $6 million and charge-offs of $1 million, which were recorded in the third quarter of 2015. As of March 31, 2016 and December 31, 2015, we had an individually impaired commercial mortgage loan included within the industrial property type with a recorded investment of $14 million, an unpaid principal balance of $15 million and charge-offs of $1 million, which were recorded in the first quarter of 2014. As of December 31, 2015, this loan had interest income of $1 million.

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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.

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

	March 31, 2016					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100% (1)**	**Total**
Property type:						
Retail	$ 765	$ 395	$ 866	$ 83	$ 9	$ 2,118
Industrial	565	446	502	65	4	1,582
Office	499	301	645	68	14	1,527
Apartments	178	64	193	10		445
Mixed use	57	47	125	4		233
Other	61	62	168			291
Total recorded investment	$ 2,125	$ 1,315	$ 2,499	$ 230	$ 27	$ 6,196
% of total	34%	21%	40%	4%	1%	100%
Weighted-average debt service coverage ratio	2.16	1.83	1.56	1.08	0.45	1.80

(1) Included $27 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 119%.

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	December 31, 2015					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100%** [1]	**Total**
Property type:						
Retail	$ 785	$ 417	$ 800	$ 103	$ 11	$ 2,116
Industrial	515	478	499	65	5	1,562
Office	493	341	580	83	19	1,516
Apartments	196	66	182	21		465
Mixed use	56	48	124	3	3	234
Other	54	55	185			294
Total recorded investment	$ 2,099	$ 1,405	$ 2,370	$ 275	$ 38	$ 6,187
% of total	34%	23%	38%	4%	1%	100%
Weighted-average debt service coverage ratio	2.13	1.82	1.57	1.12	0.55	1.79

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

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, 2016					
(Amounts in millions)	**Less than 1.00**	**1.00 - 1.25**	**1.26 - 1.50**	**1.51 - 2.00**	**Greater than 2.00**	**Total**
Property type:						
Retail	$ 66	$ 226	$ 435	$ 880	$ 511	$ 2,118
Industrial	85	180	214	697	406	1,582
Office	72	105	195	804	351	1,527
Apartments	4	38	70	201	132	445
Mixed use	3	12	28	134	56	233
Other		58	145	59	29	291
Total recorded investment	$ 230	$ 619	$ 1,087	$ 2,775	$ 1,485	$ 6,196

% of total	4%	10%	17%	45%	24%	100%
Weighted-average loan-to-value	74%	64%	60%	57%	43%	56%

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

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

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(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.

(h) Limited Partnerships or Similar Entities

Investments in partnerships or similar entities are generally considered VIEs due to the equity group s lack of sufficient financial control. Generally, these investments are limited partner or non-managing member equity investments in a widely held fund that is sponsored and managed by a reputable asset manager. We are not the primary beneficiary of any VIE investment in a limited partnership or similar entity. As of March 31, 2016 and December 31, 2015, the total carrying value of these investments was $155 million and $165 million, respectively. Our maximum exposure to loss is equal to the outstanding carrying value and future funding commitments. We have not contributed, and do not plan to contribute, any additional financial or other support outside of what is contractually obligated.

(5) Derivative Instruments

Our business activities routinely deal with fluctuations in interest rates, equity prices, currency exchange rates and other asset and liability prices. We use derivative instruments to mitigate or reduce certain of these risks. We have established policies for managing each of these risks, including prohibitions on derivatives

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

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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, 2016	December 31, 2015	Balance sheet classification	March 31, 2016	December 31, 2015
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 1,087	$ 629	Other liabilities	$ 68	$ 37
Inflation indexed swaps	Other invested assets			Other liabilities	36	33
Foreign currency swaps	Other invested assets	7	8	Other liabilities		
Total cash flow hedges		1,094	637		104	70
Total derivatives designated as hedges		1,094	637		104	70
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	526	425	Other liabilities	292	183
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	35	30
Foreign currency swaps	Other invested assets			Other liabilities	18	27
Credit default swaps	Other invested assets	1	1	Other liabilities	1	
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	6	14
Equity index options	Other invested assets	36	30	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets	2	2	Other liabilities	14	1
Other foreign currency contracts	Other invested assets	7	17	Other liabilities	31	34
GMWB embedded derivatives	Reinsurance recoverable (1)	23	17	Policyholder account balances (2)	443	352
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances (3)	345	342
					12	10

Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances (4)		
Total derivatives not designated as hedges		595	492		1,197	993
Total derivatives		$ 1,689	$ 1,129		$ 1,301	$ 1,063

(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, 2015	Additions	Maturities/ terminations	March 31, 2016
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 11,214	$	$ (18)	$ 11,196
Inflation indexed swaps	Notional	571	1	(2)	570
Foreign currency swaps	Notional	35			35
Total cash flow hedges		11,820	1	(20)	11,801
Total derivatives designated as hedges		11,820	1	(20)	11,801
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,932		(250)	4,682
Interest rate swaps related to securitization entities	Notional	67		(2)	65
Foreign currency swaps	Notional	162	17		179
Credit default swaps	Notional	144			144
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	1,080	722	(270)	1,532
Financial futures	Notional	1,331	2,361	(2,187)	1,505
Equity return swaps	Notional	134	50	(38)	146
Other foreign currency contracts	Notional	1,656	567	(128)	2,095
Total derivatives not designated as hedges		9,818	3,717	(2,875)	10,660
Total derivatives		$ 21,638	$ 3,718	$ (2,895)	$ 22,461

(Number of policies)	Measurement	December 31, 2015	Additions	Maturities/ terminations	March 31, 2016
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	36,146		(717)	35,429
Fixed index annuity embedded derivatives	Policies	17,482	623	(132)	17,973
Indexed universal life embedded derivatives	Policies	982	131	(12)	1,101

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

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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, 2016:

(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	$ 457	$ 25	Net investment income	$ 6	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	(31)		Interest expense		Net investment gains (losses)
Inflation indexed swaps	(3)	2	Net investment income		Net investment gains (losses)
Foreign currency swaps	(1)		Net investment income		Net investment gains (losses)
Total	$ 422	$ 28		$ 6	

(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, 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.

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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:

	Three months ended March 31,	
(Amounts in millions)	**2016**	**2015**
Derivatives qualifying as effective accounting hedges as of January 1	$ 2,045	$ 2,070
Current period increases (decreases) in fair value, net of deferred taxes of $(147) and $(107)	275	195
Reclassification to net (income), net of deferred taxes of $10 and $10	(18)	(18)
Derivatives qualifying as effective accounting hedges as of March 31	$ 2,302	$ 2,247

The total of derivatives designated as cash flow hedges of $2,302 million, net of taxes, recorded in stockholders equity as of March 31, 2016 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, $72 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, 2016 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, 2016 and 2015.

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

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and future dividends or other cash flows from certain foreign subsidiaries to our holding company; and (vii) equity index options to mitigate certain macroeconomic risks associated with certain foreign subsidiaries. Additionally, we provide GMWBs on certain variable annuities that are required to be bifurcated as embedded derivatives. We also offer fixed index annuity and indexed universal life products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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

The following tables provide 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)	**2016**	**2015**	**in net income**
Interest rate swaps	$ 15	$ 8	Net investment gains (losses)
Interest rate swaps related to securitization entities	(5)	(3)	Net investment gains (losses)
Credit default swaps	(1)	1	Net investment gains (losses)
Credit default swaps related to securitization entities	9	8	Net investment gains (losses)
Equity index options	(3)	(10)	Net investment gains (losses)
Financial futures	7	7	Net investment gains (losses)
Equity return swaps	2	(9)	Net investment gains (losses)
Other foreign currency contracts	(2)	(1)	Net investment gains (losses)
Foreign currency swaps	10	(10)	Net investment gains (losses)
GMWB embedded derivatives	(78)	(16)	Net investment gains (losses)
Fixed index annuity embedded derivatives	3	(7)	Net investment gains (losses)
	2	1	Net investment gains (losses)

Indexed universal life embedded derivatives		
Total derivatives not designated as hedges	$ (41)	$ (31)

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

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require either party to provide collateral and the recourse of the derivative counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

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

	March 31, 2016			December 31, 2015		
(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	$ 1,707	$ 484	$ 1,223	$ 1,135	$ 320	$ 815
Gross amounts offset in the balance sheet						
Net amounts presented in the balance sheet	1,707	484	1,223	1,135	320	815
Gross amounts not offset in the balance sheet:						
Financial instruments (3)	(367)	(367)		(231)	(231)	
Collateral received	(1,128)		(1,128)	(642)		(642)
Collateral pledged		(182)	182		(263)	263
Over collateralization	3	68	(65)	3	174	(171)
Net amount	$ 215	$ 3	$ 212	$ 265	$	$ 265

(1) Included $41 million and $24 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, respectively.

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

Except for derivatives related to securitization entities, almost all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. As a result of the credit rating downgrades of Genworth Holdings and our life insurance subsidiaries in February 2016, we could have claimed up to $215 million, or could have been required to disburse up to $3 million as of March 31, 2016. If the downgrade provisions had been triggered as of December 31, 2015, we could have claimed up to $265 million. 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

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name reference entities follow the Credit Derivatives Physical Settlement Matrix published by the International Swaps and Derivatives Association. Under these terms, credit default triggers are defined as bankruptcy, failure to pay or restructuring, if applicable. Our maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction.

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

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

	March 31, 2016			December 31, 2015		
(Amounts in millions)	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Investment grade						
Matures in less than one year	$	$	$	$	$	$
Matures after one year through five years	39		1	39		
Total credit default swaps on single name reference entities	$ 39	$	$ 1	$ 39	$	$

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

	March 31, 2016			December 31, 2015		
(Amounts in millions)	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
Original index tranche attachment/detachment point and maturity:						

7% - 15% matures in less than one year [1]	$ 100	$ 1	$	$ 100	$ 1	$
Total credit default swap index tranches	100	1		100	1	
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 [2]	12		2	12		2
Portion backing our interest maturing 2017 [3]	300		4	300		12
Total customized credit default swap index tranches related to securitization entities	312		6	312		14
Total credit default swaps on index tranches	$ 412	$ 1	$ 6	$ 412	$ 1	$ 14

(1) The current attachment/detachment as of March 31, 2016 and December 31, 2015 was 7% 15%.

(2) Original notional value was $39 million.

(3) 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 condensed 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, 2016					
			Fair value			
(Amounts in millions)	Notional amount	Carrying amount	Total	Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	$ (1)	$ 6,179	$ 6,542	$	$	$ 6,542
Restricted commercial mortgage loans	(1)	155	174			174
Other invested assets	(1)	247	253		174	79
Liabilities:						
Long-term borrowings (2)	(1)	4,232	3,260		3,079	181
Non-recourse funding obligations (2)	(1)	310	178			178
Borrowings related to securitization entities	(1)	88	93		93	
Investment contracts	(1)	17,365	18,456		5	18,451
Other firm commitments:						
Commitments to fund limited partnerships	143					
Ordinary course of business lending commitments	91					

	December 31, 2015					
			Fair value			
(Amounts in millions)	Notional amount	Carrying amount	Total	Level 1	Level 2	Level 3
Assets:						
Commercial mortgage loans	$ (1)	$ 6,170	$ 6,476	$	$	$ 6,476

Restricted commercial mortgage loans	(1)	161	179			179
Other invested assets	(1)	273	279		197	82
Liabilities:						
Long-term borrowings (2)	(1)	4,570	3,518		3,343	175
Non-recourse funding obligations (2)	(1)	1,920	1,401			1,401
Borrowings related to securitization entities	(1)	98	104		104	
Investment contracts	(1)	17,258	17,910		5	17,905
Other firm commitments:						
Commitments to fund limited partnerships	131					
Ordinary course of business lending commitments	40					

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

(2) See note 7 for additional information related to borrowings.

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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 fair value of fixed maturity, equity and trading securities are estimated primarily based on information derived from third-party pricing services (pricing services), internal models and/or third-party broker provided prices (broker quotes), which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, a security is valued using that market information for similar securities, which is also a market approach. When market information is not available for a specific security or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including mortgage-backed or asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

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

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

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For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service s assumptions to determine if we agree with the service s derived price. When available, we also evaluate the prices sampled as compared to other public prices. If a variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

For private fixed maturity securities, we utilize an income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction and value all private fixed maturity securities at par that have less than 12 months to maturity. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. To evaluate the reasonableness of the internal model, we review a sample of private fixed maturity securities each month. In that review we compare the modeled prices to the prices of similar public securities in conjunction with analysis on current market indicators. If a pricing variance greater than a pre-defined threshold is noted, additional review of the price is executed to ensure accuracy. At the end of each month, all internally modeled prices are compared to the prior month prices with an evaluation of all securities with a month-over-month change greater than a pre-defined threshold. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating and public bond spread as Level 3. In general, increases (decreases) in credit spreads will decrease (increase) the fair value for our fixed maturity securities.

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

For remaining securities priced using internal models, we determine fair value using an income approach. We analyze a sample each month to assess reasonableness given then-current market conditions. We maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

A summary of the inputs used for our fixed maturity, equity and trading securities based on the level in which instruments are classified is included below. We have combined certain classes of instruments together as the nature of the inputs is similar.

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Level 1 measurements

Equity securities. The primary inputs to the valuation of exchange-traded equity securities include quoted prices for the identical instrument.

Level 2 measurements

Fixed maturity securities

Third-party pricing services: In estimating the fair value of fixed maturity securities, approximately 90% of our portfolio is priced using third-party pricing sources. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by third-party pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our third-party pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

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The following table presents a summary of the significant inputs used by our third-party pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of March 31, 2016:

(Amounts in millions)	Fair value	Primary methodologies	Significant inputs
U.S. government, agencies and government-sponsored enterprises	$6,522	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread (OAS) to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions	$2,475	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	$2,062	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	$22,482	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine (TRACE) reports
Non-U.S. corporate	$10,796	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
Residential mortgage-backed	$5,001	OAS-based models, To Be Announced pricing models, single factor binomial models, internally priced	Prepayment and default assumptions, aggregation of bonds with similar characteristics, including collateral type, vintage, tranche type, weighted-average life, weighted-average loan age, issuer program and delinquency ratio, pay up and pay down factors, TRACE reports
Commercial mortgage-backed	$2,705	Multi-dimensional attribute-based modeling systems, pricing matrix,	Credit risk, interest rate risk, prepayment speeds, new issue data, collateral performance, origination year, tranche

		spread matrix priced to swap curves, Trepp commercial mortgage-backed securities analytics model	type, original credit ratings, weighted-average life, cash flows, spreads derived from broker quotes, bid side prices, spreads to daily updated swaps curves, TRACE reports
Other asset-backed	$2,148	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models	Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

Internal models: A portion of our non-U.S. government, U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities were $18 million, $618 million and $282 million, respectively, as of March 31, 2016. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

Equity securities. The primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active.

Level 3 measurements

Fixed maturity securities

Internal models: A portion of our U.S. government, agencies and government-sponsored enterprises, non-U.S. government, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities where there are no external ratings of the instrument and include a significant unobservable input. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was $3,512 million as of March 31, 2016.

Broker quotes: A portion of our state and political subdivisions, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by third-party pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was $1,669 million as of March 31, 2016.

Equity securities. The primary inputs to the valuation include broker quotes where the underlying inputs are unobservable and for internal models, structure of the security and issuer rating.

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

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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.

Derivatives

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

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

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

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

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

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

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

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

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

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

GMWB embedded derivatives

We are required to bifurcate an embedded derivative for certain features associated with annuity products and related reinsurance agreements where we provide a GMWB to the policyholder and are required to record the 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, 2016 and December 31, 2015, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $91 million and $79 million, respectively.

To determine the appropriate discount rate to reflect the non-performance risk of the GMWB liabilities, we evaluate the non-performance risk in our liabilities based on a hypothetical exit market transaction as there is no exit market for these types of liabilities. A hypothetical exit market can be viewed as a hypothetical transfer of the liability to another similarly rated insurance company which would closely resemble a reinsurance

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transaction. Another hypothetical exit market transaction can be viewed as a hypothetical transaction from the perspective of the GMWB policyholder. In determining the appropriate discount rate to incorporate non-performance risk of the GMWB liabilities, we also considered the impacts of state guarantees embedded in the related insurance product as a form of inseparable third-party guarantee. We believe that a hypothetical exit market participant would use a similar discount rate as described above to value the liabilities.

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

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

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

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

Fixed index annuity embedded derivatives

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

Indexed universal life embedded derivatives

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

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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 by class of instrument that are measured at fair value on a recurring basis as of the dates indicated:

	March 31, 2016			
(Amounts in millions)	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 6,524	$	$ 6,522	$ 2
State and political subdivisions	2,517		2,475	42
Non-U.S. government	2,080		2,080	
U.S. corporate:				
Utilities	4,269		3,787	482
Energy	2,164		1,934	230
Finance and insurance	5,815		5,118	697
Consumer non-cyclical	4,354		4,242	112
Technology and communications	2,300		2,263	37
Industrial	1,225		1,161	64
Capital goods	2,050		1,896	154
Consumer cyclical	1,692		1,482	210
Transportation	1,132		1,009	123
Other	388		208	180
Total U.S. corporate	25,389		23,100	2,289
Non-U.S. corporate:				
Utilities	1,084		768	316
Energy	1,437		1,211	226
Finance and insurance	2,619		2,428	191
Consumer non-cyclical	766		603	163
Technology and communications	1,039		975	64
Industrial	1,034		938	96
Capital goods	610		396	214
Consumer cyclical	544		474	70
Transportation	620		476	144
Other	2,876		2,809	67

Total non-U.S. corporate	12,629		11,078	1,551
Residential mortgage-backed	5,122		5,001	121
Commercial mortgage-backed	2,713		2,705	8
Other asset-backed	3,316		2,148	1,168
Total fixed maturity securities	60,290		55,109	5,181
Equity securities	431	386	1	44
Other invested assets:				
Trading securities	471		471	
Derivative assets:				
Interest rate swaps	1,613		1,613	
Foreign currency swaps	7		7	
Credit default swaps	1			1
Equity index options	36			36
Equity return swaps	2		2	
Other foreign currency contracts	7		6	1
Total derivative assets	1,666		1,628	38
Securities lending collateral	415		415	
Total other invested assets	2,552		2,514	38
Restricted other invested assets related to securitization entities	422		181	241
Reinsurance recoverable [(1)]	23			23
Separate account assets	7,624	7,624		
Total assets	$ 71,342	$ 8,010	$ 57,805	$ 5,527

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

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(Amounts in millions)	December 31, 2015 Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 6,203	$	$ 6,200	$ 3
State and political subdivisions	2,438		2,403	35
Non-U.S. government	2,015		2,015	
U.S. corporate:				
Utilities	3,693		3,244	449
Energy	2,501		2,248	253
Finance and insurance	5,632		4,917	715
Consumer non-cyclical	4,096		3,987	109
Technology and communications	2,193		2,158	35
Industrial	1,173		1,112	61
Capital goods	1,950		1,770	180
Consumer cyclical	1,675		1,436	239
Transportation	1,086		980	106
Other	402		220	182
Total U.S. corporate	24,401		22,072	2,329
Non-U.S. corporate:				
Utilities	843		556	287
Energy	1,686		1,434	252
Finance and insurance	2,473		2,282	191
Consumer non-cyclical	752		583	169
Technology and communications	988		926	62
Industrial	986		902	84
Capital goods	604		391	213
Consumer cyclical	526		455	71
Transportation	605		461	144
Other	2,736		2,664	72
Total non-U.S. corporate	12,199		10,654	1,545
Residential mortgage-backed	5,101		4,985	116
Commercial mortgage-backed	2,559		2,549	10
Other asset-backed	3,281		2,139	1,142

Total fixed maturity securities	58,197		53,017	5,180
Equity securities	310	270	2	38
Other invested assets:				
Trading securities	447		447	
Derivative assets:				
Interest rate swaps	1,054		1,054	
Foreign currency swaps	8		8	
Credit default swaps	1			1
Equity index options	30			30
Equity return swaps	2		2	
Other foreign currency contracts	17		14	3
Total derivative assets	1,112		1,078	34
Securities lending collateral	347		347	
Total other invested assets	1,906		1,872	34
Restricted other invested assets related to securitization entities	413		181	232
Reinsurance recoverable [1]	17			17
Separate account assets	7,883	7,883		
Total assets	$ 68,726	$ 8,153	$ 55,072	$ 5,501

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

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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:

		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of January 1, 2016**	**Included in net income**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3** [1]	**Transfer out of Level 3** [1]	**Ending balance as of March 31, 2016**	**Total gains (losses) included in net income attributable to assets still held**
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 3	$	$	$	$	$	$ (1)	$	$	$ 2	$
State and political subdivisions	35	1	(1)	7						42	1
U.S. corporate:											
Utilities	449	1	5	13			(8)	49	(27)	482	
Energy	253		(1)				(1)	7	(28)	230	
Finance and insurance	715	10	7				(17)		(18)	697	10
Consumer non-cyclical	109		3							112	
Technology and communications	35	1	1							37	1
Industrial	61		3							64	
Capital goods	180		3						(29)	154	
Consumer cyclical	239	4	4	3			(40)			210	
Transportation	106		4	17			(4)			123	
Other	182		1				(1)		(2)	180	
Total U.S. corporate	2,329	16	30	33			(71)	56	(104)	2,289	11

Non-U.S. corporate:											
Utilities	287		3					26		316	
Energy	252		13				(13)		(26)	226	
Finance and insurance	191	1	(1)							191	1
Consumer non-cyclical	169		5				(11)			163	
Technology and communications	62		2							64	
Industrial	84		3					9		96	
Capital goods	213		7				(6)			214	
Consumer cyclical	71		1				(2)			70	
Transportation	144									144	
Other	72		2				(7)			67	
Total non-U.S. corporate	1,545	1	35				(39)	35	(26)	1,551	1
Residential mortgage-backed	116		2	38			(2)		(33)	121	
Commercial mortgage-backed	10						(2)			8	
Other asset-backed	1,142	1	(16)	12			(6)	35		1,168	1
Total fixed maturity securities	5,180	19	50	90			(121)	126	(163)	5,181	14
Equity securities	38			6						44	
Other invested assets:											
Derivative assets:											
Credit default swaps	1									1	
Equity index options	30	(3)		13			(4)			36	3
Other foreign currency contracts	3	(2)								1	(2)
Total derivative assets	34	(5)		13			(4)			38	1
Total other invested assets	34	(5)		13			(4)			38	1
Restricted other invested assets related to securitization entities	232	9								241	9
Reinsurance recoverable (2)	17	5				1				23	5
Total Level 3 assets	$ 5,501	$ 28	$ 50	$ 109	$	$ 1	$ (125)	$ 126	$ (163)	$ 5,527	$ 29

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

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

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		Total realized and unrealized gains (losses)									
(Amounts in millions)	**Beginning balance as of January 1, 2015**	**Included in net income**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3 [1]**	**Transfer out of Level 3 [1]**	**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	$
State and political subdivisions	30	1	(1)	5					(5)	30	1
Non-U.S. government	7						(1)			6	
U.S. corporate:											
Utilities	444		6	15			(2)		(1)	462	
Energy	285		3						(8)	280	
Finance and insurance	616	5	15	20			(18)		(1)	637	4
Consumer non-cyclical	140	1	4				(28)			117	
Technology and communications	45		2							47	
Industrial	36		1							37	
Capital goods	166		1							167	
Consumer cyclical	363		5				(1)			367	
Transportation	153	1	2	7			(2)			161	1
Other	171	1	2				(1)			173	1
Total U.S. corporate	2,419	8	41	42			(52)		(10)	2,448	6
Non-U.S. corporate:											
Utilities	328		4							332	
Energy	324	(1)	(7)		(9)					307	(1)
Finance and insurance	221	1	6				(2)			226	1
Consumer non-cyclical	197		5				(30)			172	

Technology and communications	42							1		43	
Industrial	131		2	7			(14)	1		127	
Capital goods	237		5							242	
Consumer cyclical	89		2						(1)	90	
Transportation	154		3							157	
Other	81		1					1		83	
Total non-U.S. corporate	1,804		21	7	(9)		(46)	3	(1)	1,779	
Residential mortgage-backed	65		(2)				(2)			61	
Commercial mortgage-backed	5								(1)	4	
Other asset-backed	1,420		14	38			(11)	33	(38)	1,456	
Total fixed maturity securities	5,754	9	73	92	(9)		(113)	36	(55)	5,787	7
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	$ 6,051	$	$ 73	$ 101	$ (10)	$	$ (114)	$ 36	$ (55)	$ 6,082	$

[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)	2016	2015
Total realized and unrealized gains (losses) included in net income:		
Net investment income	$ 20	$ 11
Net investment gains (losses)	8	(11)
Total	$ 28	$
Net gains (losses) included in net income attributable to assets still held:		
Net investment income	$ 15	$ 9
Net investment gains (losses)	14	(9)
Total	$ 29	$

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.

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

	March 31, 2016			
(Amounts in millions)	Total	Level 1	Level 2	Level 3
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives (1)	$ 443	$	$	$ 443
Fixed index annuity embedded derivatives	345			345
Indexed universal life embedded derivatives	12			12
Total policyholder account balances	800			800
Derivative liabilities:				

Interest rate swaps	360		360	
Interest rate swaps related to securitization entities	35		35	
Inflation indexed swaps	36		36	
Foreign currency swaps	18		18	
Credit default swaps	1		1	
Credit default swaps related to securitization entities	6			6
Equity return swaps	14		14	
Other foreign currency contracts	31		31	
Total derivative liabilities	501		495	6
Borrowings related to securitization entities	85			85
Total liabilities	$ 1,386	$	$ 495	$ 891

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

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	December 31, 2015			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities				
Policyholder account balances:				
GMWB embedded derivatives [(1)]	$ 352	$	$	$ 352
Fixed index annuity embedded derivatives	342			342
Indexed universal life embedded derivatives	10			10
Total policyholder account balances	704			704
Derivative liabilities:				
Interest rate swaps	220		220	
Interest rate swaps related to securitization entities	30		30	
Inflation indexed swaps	33		33	
Foreign currency swaps	27		27	
Credit default swaps related to securitization entities	14			14
Equity return swaps	1		1	
Other foreign currency contracts	34		34	
Total derivative liabilities	359		345	14
Borrowings related to securitization entities	81			81
Total liabilities	$ 1,144	$	$ 345	$ 799

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

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

		Total realized and unrealized (gains) losses									
(Amounts in millions)	**Beginning balance as of January 1, 2016**	**Included in net**	**Included in OCI**	**Purchases**	**Sales**	**Issuances**	**Settlements**	**Transfer into Level 3**	**Transfer out of**	**Ending balance as of March 31, 2016**	**Total (gains) losses included in net (income) attributable to liabilities**

		(income)							**Level 3**		**still held**
Policyholder account balances:											
GMWB embedded derivatives [1]	$ 352	$ 83	$	$	$	$ 8	$	$	$	$ 443	$ 87
Fixed index annuity embedded derivatives	342	(3)				10	(4)			345	(3)
Indexed universal life embedded derivatives	10	(2)				4				12	(2)
Total policyholder account balances	704	78				22	(4)			800	82
Derivative liabilities:											
Credit default swaps related to securitization entities	14	(9)				1				6	(9)
Total derivative liabilities	14	(9)				1				6	(9)
Borrowings related to securitization entities	81	4								85	4
Total Level 3 liabilities	$ 799	$ 73	$	$	$	$ 23	$ (4)	$	$	$ 891	$ 77

(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, 2015	Total realized and unrealized (gains) losses Included in net (income)	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3	Transfer out of Level 3	Ending balance as of March 31, 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)
Total Level 3 liabilities	$ 676	$ 11	$	$ 1	$	$ 28	$ (2)	$	$	$ 714	$ 15

[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)	**2016**	**2015**
Total realized and unrealized (gains) losses included in net (income):		
Net investment income	$	$
Net investment (gains) losses	73	11
Total	$ 73	$ 11
Total (gains) losses included in net (income) attributable to liabilities still held:		
Net investment income	$	$
Net investment (gains) losses	77	15
Total	$ 77	$ 15

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

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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.

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, 2016:

(Amounts in millions)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average
Fixed maturity securities:					
U.S. corporate:					
Utilities	Internal models	$ 459	Credit spreads	113bps - 447bps	186bps
Energy	Internal models	95	Credit spreads	137bps - 454bps	282bps
Finance and insurance	Internal models	587	Credit spreads	114bps - 677bps	272bps
Consumer non-cyclical	Internal models	112	Credit spreads	143bps - 419bps	257bps
Technology and communications	Internal models	37	Credit spreads	425bps	Not applicable
Industrial	Internal models	64	Credit spreads	222bps - 321bps	275bps
Capital goods	Internal models	154	Credit spreads	85bps - 436bps	220bps
Consumer cyclical	Internal models	210	Credit spreads	85bps - 355bps	222bps
Transportation	Internal models	113	Credit spreads	59bps - 323bps	202bps
Other	Internal models	166	Credit spreads	97bps - 310bps	163bps
Total U.S. corporate	Internal models	$ 1,997	Credit spreads	59bps - 677bps	233bps
Non-U.S. corporate:					
Utilities	Internal models	$ 316	Credit spreads	114bps - 210bps	170bps
Energy	Internal models	174	Credit spreads	159bps - 398bps	249bps
Finance and insurance	Internal models	181	Credit spreads	127bps - 268bps	179bps
Consumer non-cyclical	Internal models	158	Credit spreads	85bps - 305bps	196bps

Technology and communications	Internal models	64	Credit spreads	187bps - 398bps	287bps
Industrial	Internal models	88	Credit spreads	143bps - 310bps	248bps
Capital goods	Internal models	179	Credit spreads	143bps - 321bps	229bps
Consumer cyclical	Internal models	70	Credit spreads	133bps - 317bps	222bps
Transportation	Internal models	144	Credit spreads	122bps - 317bps	205bps
Other	Internal models	37	Credit spreads	291bps - 786bps	516bps
Total non-U.S. corporate	Internal models	$ 1,411	Credit spreads	85bps - 786bps	217bps
Derivative assets:					
Credit default swaps	Discounted cash flows	$ 1	Credit spreads	9bps	Not applicable
Equity index options	Discounted cash flows	$ 36	Equity index volatility	% - 22%	16%
Other foreign currency contracts	Discounted cash flows	$ 1	Foreign exchange rate volatility	10% - 14%	13%
Policyholder account balances:					
			Withdrawal utilization rate	% - 99%	66%
			Lapse rate	% - 15%	6%
			Non-performance risk (credit spreads)	40bps - 85bps	72bps
GMWB embedded derivatives [1]	Stochastic cash flow model	$ 443	Equity index volatility	16% - 24%	21%
Fixed index annuity embedded derivatives	Option budget method	$ 345	Expected future interest credited	% - 3%	2%
Indexed universal life embedded derivatives	Option budget method	$ 12	Expected future interest credited	3% - 9%	6%

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

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Certain classes of instruments classified as Level 3 are excluded above as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value.

(7) Borrowings and Other Financings

(a) Short-Term Borrowings

Revolving Credit Facility

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

(b) Long-Term Borrowings

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

(Amounts in millions)	March 31, 2016	December 31, 2015
Genworth Holdings [1]		
8.625% Senior Notes, due 2016	$	$ 298
6.52% Senior Notes, due 2018	597	598
7.70% Senior Notes, due 2020	397	397
7.20% Senior Notes, due 2021	381	389
7.625% Senior Notes, due 2021	705	724
4.90% Senior Notes, due 2023	399	399
4.80% Senior Notes, due 2024	400	400
6.50% Senior Notes, due 2034	297	297
6.15% Fixed-to-Floating Rate Junior Subordinated Notes, due 2066	598	598
Subtotal	3,774	4,100
Bond consent fees	(43)	
Deferred borrowing charges	(20)	(21)
Total Genworth Holdings	3,711	4,079

Canada (2)		
5.68% Senior Notes, due 2020	212	199
4.24% Senior Notes, due 2024	123	116
Subtotal	335	315
Deferred borrowing charges	(2)	(2)
Total Canada	333	313
Australia (3)		
Floating Rate Junior Notes, due 2021	38	36
Floating Rate Junior Notes, due 2025	154	146
Subtotal	192	182
Deferred borrowing charges	(4)	(4)
Total Australia	188	178
Total	$ 4,232	$ 4,570

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

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

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

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

During the three months ended March 31, 2016, we also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

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

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

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

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(c) Non-Recourse Funding Obligations

The following table sets forth the non-recourse funding obligations (surplus notes) of our wholly-owned, special purpose consolidated captive insurance subsidiaries as of the dates indicated:

(Amounts in millions) Issuance	March 31, 2016	December 31, 2015
River Lake Insurance Company (a), due 2033	$	$ 570
River Lake Insurance Company (b), due 2033		405
River Lake Insurance Company II (a), due 2035		192
River Lake Insurance Company II (b), due 2035		453
Rivermont Life Insurance Company I (a), due 2050	315	315
Subtotal	315	1,935
Deferred borrowing charges	(5)	(15)
Total	$ 310	$ 1,920

(1) Accrual of interest based on one-month London Interbank Offered Rate (LIBOR) that resets every 28 days plus a fixed margin.

(b) Accrual of interest based on one-month LIBOR that resets on a specified date each month plus a contractual margin.

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

(d) Repurchase agreements and securities lending activity

Repurchase agreements

We have a repurchase program in which we sell an investment security at a specified price and agree to repurchase that security at another specified price at a later date. Repurchase agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, including accrued interest, as specified in the respective agreement. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the parties against credit exposure. Cash received is invested in fixed maturity securities. As of March 31, 2016 and December 31, 2015, the fair value of securities pledged under the repurchase program was $32 million and $231 million, respectively, and the repurchase obligation of $29 million and $229 million, respectively, was included in other liabilities in the consolidated balance sheets.

Securities lending activity

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

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Under the securities lending program in the United States, the borrower is required to provide collateral, which can consist of cash or government securities, on a daily basis in amounts equal to or exceeding 102% of the value of the loaned securities. Currently, we only accept cash collateral from borrowers under the program. Cash collateral received by us on securities lending transactions is reflected in other invested assets with an offsetting liability recognized in other liabilities for the obligation to return the collateral. Any cash collateral received is reinvested by our custodian based upon the investment guidelines provided within our agreement. In the United States, the reinvested cash collateral is primarily invested in a money market fund approved by the National Association of Insurance Commissioners, U.S. and foreign government securities, U.S. government agency securities, asset-backed securities and corporate debt securities. As of March 31, 2016 and December 31, 2015, the fair value of securities loaned under our securities lending program in the United States was $401 million and $334 million, respectively. As of March 31, 2016 and December 31, 2015, the fair value of collateral held under our securities lending program in the United States was $415 million and $347 million, respectively, and the offsetting obligation to return collateral of $415 million and $347 million, respectively, was included in other liabilities in the consolidated balance sheets. We did not have any non-cash collateral provided by the borrowers in our securities lending program in the United States as of March 31, 2016 and December 31, 2015.

Under our securities lending program in Canada, the borrower is required to provide collateral consisting of government securities on a daily basis in amounts equal to or exceeding 105% of the fair value of the applicable securities loaned. Securities received from counterparties as collateral are not recorded on our consolidated balance sheet given that the risk and rewards of ownership is not transferred from the counterparties to us in the course of such transactions. Additionally, there was no cash collateral because it is not permitted as an acceptable form of collateral under the program. In Canada, the lending institution must be included on the approved Securities Lending Borrowers List with the Canadian regulator and the intermediary must be rated at least AA- by Standard & Poor s Financial Services LLC. As of March 31, 2016 and December 31, 2015, the fair value of securities loaned under our securities lending program in Canada was $324 million and $340 million, respectively.

Risks associated with repurchase agreements and securities lending programs

Our repurchase agreement and securities lending programs expose us to liquidity risk if we did not have enough cash or collateral readily available to return to the counterparty when required to do so under the agreements. We manage this risk by regularly monitoring our available sources of cash and collateral to ensure we can meet short-term liquidity demands under normal and stressed scenarios.

We are also exposed to credit risk in the event of default of our counterparties or changes in collateral values. This risk is significantly reduced because our programs require over collateralization and collateral exposures are trued up on a daily basis. We manage this risk by using multiple counterparties and ensuring that changes in required collateral are monitored and adjusted daily. We also monitor the creditworthiness, including credit ratings, of our counterparties on a regular basis.

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Contractual maturity

The following tables present the remaining contractual maturity of the agreements as of the dates indicated:

	March 31, 2016				
(Amounts in millions)	**Overnight and continuous**	**Up to 30 days**	**31 - 90 days**	**Greater than 90 days**	**Total**
Repurchase agreements:					
U.S. government, agencies and government-sponsored enterprises	$	$ 29	$	$	$ 29
Securities lending:					
Fixed maturity securities:					
U.S. government, agencies and government-sponsored enterprises	9				9
Non-U.S. government	60				60
U.S. corporate	120				120
Non-U.S. corporate	219				219
Subtotal, fixed maturity securities	408				408
Equity securities	7				7
Total securities lending	415				415
Total repurchase agreements and securities lending	$ 415	$ 29	$	$	$ 444

	December 31, 2015				
(Amounts in millions)	**Overnight and continuous**	**Up to 30 days**	**31 - 90 days**	**Greater than 90 days**	**Total**
Repurchase agreements:					
U.S. government, agencies and government-sponsored enterprises	$	$ 58	$ 25	$ 146	$ 229
Securities lending:					
Fixed maturity securities:					
	18				18

U.S. government, agencies and government-sponsored enterprises					
Non-U.S. government	39				39
U.S. corporate	95				95
Non-U.S. corporate	190				190
Subtotal, fixed maturity securities	342				342
Equity securities	5				5
Total securities lending	347				347
Total repurchase agreements and securities lending	$ 347	$ 58	$ 25	$ 146	$ 576

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(8) Income Taxes

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

	Three months ended March 31,			
(Amounts in millions)	**2016**		**2015**	
Pre-tax income	$ 150		$ 294	
Statutory U.S. federal income tax rate	$ 53	35.0%	$ 103	35.0%
Increase (reduction) in rate resulting from:				
State income tax, net of federal income tax effect	1	0.8	5	1.5
Benefit on tax favored investments	(1)	(0.6)	(3)	(0.9)
Effect of foreign operations	(6)	(4.0)	(16)	(5.5)
Reversal of valuation allowance	(25)	(16.5)		
Non-deductible expenses			1	0.3
Stock-based compensation	3	1.7	1	0.5
Loss on sale of business	(2)	(1.2)		
Effective rate	$ 23	15.2%	$ 91	30.9%

The effective tax rate for the three months ended March 31, 2016 was impacted by the reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe due to newly expected taxable gains supporting the recognition of these deferred tax assets in the current year.

(9) Segment Information

Beginning in the fourth quarter of 2015, we changed how we review our operating businesses and no longer have separate reporting divisions. Under our new structure, we have the following five operating business segments: U.S. Mortgage Insurance; Canada Mortgage Insurance; Australia Mortgage Insurance; U.S Life Insurance (which includes our long-term care insurance, life insurance and fixed annuities businesses); and Runoff (which includes the results of non-strategic products which are no longer actively sold). In addition to our five operating business segments, we also have Corporate and Other activities which include debt financing expenses that are incurred at the Genworth Holdings level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of other businesses that are managed outside of our operating segments, including certain smaller international mortgage insurance businesses and discontinued operations. Financial information has been updated for all periods to reflect the reorganized segment reporting structure.

We allocate our consolidated provision for income taxes to our operating segments. Our allocation methodology applies a specific tax rate to the pre-tax income (loss) of each segment, which is then adjusted in each segment to reflect the tax attributes of items unique to that segment such as foreign income. The difference between the consolidated provision for income taxes and the sum of the provision for income taxes in each segment is reflected in Corporate and Other activities. The annually-determined tax rates and adjustments to each segment s provision for income taxes are estimates which are subject to review and could change from year to year.

We use the same accounting policies and procedures to measure segment income (loss) and assets as our consolidated net income and assets. Our chief operating decision maker evaluates segment performance and

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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.

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.

In the first quarter of 2016, we recorded an estimated gain of $20 million, net of taxes, related to the planned sale of our mortgage insurance business in Europe.

In January 2016, we paid a make-whole expense of $13 million, net of taxes, related to the early redemption of Genworth Holdings 2016 Notes. We also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a gain of $2 million, net of taxes, in the first quarter of 2016. These transactions were excluded for net operating income for the periods presented as they related to a gain (loss) on the early extinguishment of debt.

In the first quarter of 2016, we completed a life block transaction resulting in an after-tax loss of $6 million in connection the early extinguishment of non-recourse funding obligations.

In the first quarter of 2016, we recorded an after-tax expense of $9 million related to restructuring costs as part of an expense reduction plan as we evaluate and appropriately size our organizational needs and expenses.

There were no infrequent or unusual items excluded from net operating income during the periods presented other than fees incurred during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of $12 million, net of taxes, for broker, advisor and investment banking fees.

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

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

	Three months ended March 31,	
(Amounts in millions)	**2016**	**2015**
Revenues:		
U.S. Mortgage Insurance segment s revenues	$ 175	$ 170
Canada Mortgage Insurance segment s revenues	160	136
Australia Mortgage Insurance segment s revenues	105	118
U.S. Life Insurance segment:		
Long-term care insurance	952	905
Life insurance	123	487
Fixed annuities	206	233
U.S. Life Insurance segment s revenues	1,281	1,625
Runoff segment s revenues	69	74
Corporate and Other s revenues	(5)	12
Total revenues	$ 1,785	$ 2,135

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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 available to Genworth Financial, Inc. s common stockholders for the periods indicated:

	Three months ended March 31,	
(Amounts in millions)	**2016**	**2015**
U.S. Mortgage Insurance segment s net operating income	$ 61	$ 52
Canada Mortgage Insurance segment s net operating income	33	40
Australia Mortgage Insurance segment s net operating income	19	30
U.S. Life Insurance segment:		
Long-term care insurance	34	10
Life insurance	31	40
Fixed annuities	26	31
U.S. Life Insurance segment s net operating income	91	81
Runoff segment s net operating income	4	11
Corporate and Other s net operating loss	(105)	(60)
Net operating income	103	154
Net investment gains (losses), net	(13)	(1)
Gains (losses) on sale of businesses, net	20	
Gains (losses) on early extinguishment of debt, net	(11)	
Gains (losses) from life block transactions, net	(6)	
Expenses related to restructuring, net	(9)	
Fees associated with bond consent solicitation, net	(12)	
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	72	153
Net income attributable to noncontrolling interests	55	50
Income from continuing operations	127	203
Income (loss) from discontinued operations, net of taxes	(19)	1

Net income		108		204
Less: net income attributable to noncontrolling interests		55		50
Net income available to Genworth Financial, Inc. s common stockholders	$	53	$	154

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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, 2016	December 31, 2015
Assets:		
U.S. Mortgage Insurance	$ 2,367	$ 2,899
Canada Mortgage Insurance	4,727	4,520
Australia Mortgage Insurance	3,053	2,987
U.S. Life Insurance	82,410	79,530
Runoff	11,729	12,115
Corporate and Other	2,756	4,253
Segment assets from continuing operations	107,042	106,304
Assets held for sale	131	127
Total assets	$ 107,173	$ 106,431

(10) 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 or related state anti-inducement laws, and mortgage insurance policy rescissions and curtailments, and breaching fiduciary or other duties to customers, including but not limited to breach of customer information. Plaintiffs in class action and other lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties. We are also subject to litigation arising out of our general business activities such as our contractual and employment relationships and securities lawsuits. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state, federal and international regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition or results of operations.

In August 2014, Genworth Financial, Inc., its current chief executive officer and its then current chief financial officer were named in a putative class action lawsuit captioned *Manuel Esguerra v. Genworth Financial, Inc.*, *et al*, in the United States District Court for the Southern District of New York. Plaintiff alleged

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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 May 1, 2015, the court denied the motion to dismiss. We engaged in mediation in the fourth quarter of 2015, continuing into the first quarter of 2016, and previously accrued $25 million in connection with this matter, which was the amount of our self-insured retention on our executive and organizational liability insurance program. On March 11, 2016, in connection with the mediation, we reached an agreement in principle to settle the action. On April 1, 2016, the parties entered into a stipulation and agreement of settlement. The settlement provides for a full release of all defendants in connection with the allegations made in the lawsuit. We believe that the plaintiffs claims are without merit, but we are settling the lawsuit to avoid the burden, risk and expense of further litigation. The agreement provides for a settlement payment to the class of $219 million, inclusive of all plaintiffs attorneys fees and expenses and settlement costs, of which $150 million will be paid by our insurance carriers, and $69 million pre-tax will be paid by Genworth. Our payment was made into an escrow account during the first quarter of 2016. We also incurred additional legal fees and expenses of approximately $10 million pre-tax, for a total additional pre-tax incurred amount of $79 million in the first quarter of 2016. On April 13, 2016, the Court granted plaintiffs motion for preliminary approval of the settlement, provisional certification of the class for settlement purposes only, and issuance of notice to settlement class members. The settlement remains subject to final court approval. The Court has scheduled a hearing on July 20, 2016 to consider final approval of the settlement. In the event the settlement is approved by the court, it will exhaust all coverage available to Genworth under our 2014 executive and organizational liability insurance program. Therefore, Genworth does not have coverage under the program to pay any future settlements or judgments in relation to litigation brought during the 2014 policy year, including the *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, case discussed below.

In April 2014, Genworth Financial, Inc., its former chief executive officer and its then current chief financial officer were named in a putative class action lawsuit captioned *City of Hialeah Employees Retirement System v. Genworth Financial, Inc.*, *et al.*, in the United States District Court for the Southern District of New York. Plaintiff alleges securities law violations involving certain disclosures in 2012 concerning Genworth s Australian mortgage insurance business, including our plans for an 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. On March 25, 2015, the United States District Court for the Southern District of New York denied the motion but entered an order dismissing the amended complaint with leave to replead. On April 17, 2015, plaintiffs filed a second amended complaint. We filed a motion to dismiss the second amended complaint and on June 16, 2015, the court denied the motion to dismiss. On January 22, 2016, we filed a motion for reconsideration of the court s June 16, 2015 order denying our motion to dismiss which the court denied on

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March 3, 2016. On January 29, 2016, plaintiffs filed a motion for class certification which we opposed. On March 7, 2016, the court granted plaintiffs motion for class certification. We intend to vigorously defend this action. As discussed above, we have exhausted all coverage under our 2014 executive and organizational liability insurance program applicable to this case; therefore, there is no insurance coverage for Genworth with respect to any settlement or judgment amount related to this litigation.

In January 2016, Genworth Financial, Inc., its current chief executive officer, its former chief executive officer, its former chief financial officer and the current members of its board of directors were named in a shareholder derivative suit filed by International Union of Operating Engineers Local No. 478 Pension Fund, Richard L. Salberg and David Pinkoski in the Court of Chancery of the State of Delaware. The case is captioned *Int l Union of Operating Engineers Local No. 478 Pension Fund, et al v. McInerney, et al.* In February 2016, Genworth Financial, Inc., its current Chief Executive Officer, its former Chief Executive Officer, its former Chief Financial Officer and the current members of its board of directors were named in a second shareholder derivative suit filed by Martin Cohen in the Court of Chancery of the State of Delaware. The case is captioned *Cohen v. McInerney, et al*. On February 23, 2016, the Court of Chancery of the State of Delaware consolidated these derivative suits under the caption *Genworth Financial, Inc. Consolidated Derivative Litigation*. On March 28, 2016, plaintiffs in the consolidated action filed an amended complaint. The amended complaint alleges breaches of fiduciary duties concerning Genworth s long-term care insurance reserves and concerning Genworth s Australian mortgage insurance business, including our plans for an initial public offering of the business and seeks unspecified damages, costs, attorneys fees and such equitable relief as the court may deem proper. The amended consolidated complaint also adds Genworth s current Chief Financial Officer as a defendant, based on the current Chief Financial Officer s alleged conduct in her former capacity as Genworth s Controller and principal accounting officer. We intend to move to dismiss the consolidated action.

At this time, other than as noted above, we cannot determine or predict the ultimate outcome of any of the pending legal and regulatory matters specifically identified above or the likelihood of potential future legal and regulatory matters against us. Except as disclosed above, we also are not able to provide an estimate or range of reasonably possible losses related to these matters. Therefore, we cannot ensure that the current investigations and proceedings will not have a material adverse effect on our business, financial condition or results of operations. In addition, it is possible that related investigations and proceedings may be commenced in the future, and we could become subject to additional unrelated investigations and lawsuits. Increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal precedents and industry-wide regulations or practices that could adversely affect our business, financial condition and results of operations.

(b) Commitments

As of March 31, 2016, we were committed to fund $143 million in limited partnership investments, $45 million in U.S. commercial mortgage loan investments and $46 million in private placement investments.

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

The following tables show the changes in accumulated other comprehensive income (loss), net of taxes, by component as of and for the periods indicated:

(Amounts in millions)	Net unrealized investment gains (losses) [1]	Derivatives qualifying as hedges [2]	Foreign currency translation and other adjustments	Total
Balances as of January 1, 2016	$ 1,254	$ 2,045	$ (289)	$ 3,010
OCI before reclassifications	791	275	216	1,282
Amounts reclassified from (to) OCI	12	(18)		(6)
Current period OCI	803	257	216	1,276
Balances as of March 31, 2016 before noncontrolling interests	2,057	2,302	(73)	4,286
Less: change in OCI attributable to noncontrolling interests			101	101
Balances as of March 31, 2016	$ 2,057	$ 2,302	$ (174)	$ 4,185

(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, 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.

The foreign currency translation and other adjustments balance included $5 million and $32 million, respectively, net of taxes of $3 million and $14 million, respectively, related to a net unrecognized postretirement benefit obligation as of March 31, 2016 and 2015. Amount also included taxes of $(45) million and $(91) million, respectively, related to foreign currency translation adjustments as of March 31, 2016 and 2015.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Amount reclassified from accumulated other comprehensive income (loss) Three months ended March 31,		Affected line item in the consolidated statements
(Amounts in millions)	**2016**	**2015**	**of income**
Net unrealized investment (gains) losses:			
Unrealized (gains) losses on investments [1]	$ 18	$	Net investment (gains) losses
Provision for income taxes	(6)		Provision for income taxes
Total	$ 12	$	
Derivatives qualifying as hedges:			
Interest rate swaps hedging assets	$ (25)	$ (19)	Net investment income
Interest rate swaps hedging assets	(1)		Net investment (gains) losses
Inflation indexed swaps	(2)	(9)	Net investment income
Provision for income taxes	10	10	Provision for income taxes
Total	$ (18)	$ (18)	

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

(12) Sale of Businesses

European mortgage insurance business

On October 27, 2015, we announced that Genworth Mortgage Insurance Corporation, our wholly-owned indirect subsidiary, has entered into an agreement to sell our European mortgage insurance business to AmTrust Financial Services, Inc., which is currently expected to result in net proceeds of approximately $50 million. In the first quarter of 2016, we recorded an estimated pre-tax loss of $7 million and a tax benefit of $27 million primarily related to the reversal of a deferred tax valuation allowance, for a net after-tax gain of $20 million. The transaction is expected to close in the second quarter of 2016 and is subject to customary conditions, including requisite regulatory approvals.

GENWORTH FINANCIAL, INC.

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The major assets and liability categories of our European mortgage insurance business were as follows as of the dates indicated:

(Amounts in millions)	March 31, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 198	$ 195
Other invested assets	2	6
Total investments	200	201
Cash and cash equivalents	41	28
Accrued investment income	3	3
Reinsurance recoverable	22	21
Other assets	12	14
Assets held for sale	278	267
Fair value less closing costs impairment	(147)	(140)
Total assets held for sale	$ 131	$ 127
Liabilities		
Liability for policy and contract claims	$ 59	$ 56
Unearned premiums	61	58
Other liabilities	11	12
Deferred tax liability		1
Liabilities held for sale	$ 131	$ 127

Deferred tax liabilities that result in future taxable or deductible amounts to the remaining consolidated group have been reflected in liabilities of continuing operations and not reflected in liabilities held for sale.

Lifestyle protection insurance

On December 1, 2015, we completed the sale of our lifestyle protection insurance business and received approximately $493 million with net proceeds of approximately $400 million, subject to the finalization of closing balance sheet purchase price adjustments expected in the second quarter of 2016. During the first quarter of 2016, we recorded an additional after-tax loss of approximately $19 million primarily related to claim liabilities and taxes we retain.

We retained liabilities for the U.K. pension plan as well as taxes and certain claims and sales practices that occurred while we owned the lifestyle protection insurance business. We have established our current best estimates for these liabilities, where appropriate; however, there may be future adjustments to these estimates.

(13) 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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, 2016 and December 31, 2015, the condensed consolidating income statement information and the condensed consolidating comprehensive income statement information for the three months ended March 31, 2016 and 2015 and the condensed consolidating cash flow statement information for the three months ended March 31, 2016 and 2015.

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.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the condensed consolidating balance sheet information as of March 31, 2016:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$	$ 60,490	$ (200)	$ 60,290
Equity securities available-for-sale, at fair value			431		431
Commercial mortgage loans			6,179		6,179
Restricted commercial mortgage loans related to securitization entities			155		155
Policy loans			1,565		1,565
Other invested assets		5	2,927	(9)	2,923
Restricted other invested assets related to securitization entities, at fair value			422		422
Investments in subsidiaries	14,108	14,197		(28,305)	
Total investments	14,108	14,202	72,169	(28,514)	71,965
Cash and cash equivalents		760	3,283		4,043
Accrued investment income			720		720
Deferred acquisition costs			4,235		4,235
Intangible assets and goodwill			291		291
Reinsurance recoverable			17,587		17,587
Other assets	(4)	265	317	(1)	577
Intercompany notes receivable		68	392	(460)	
Separate account assets			7,624		7,624
Assets held for sale			131		131
Total assets	$ 14,104	$ 15,295	$ 106,749	$ (28,975)	$ 107,173
Liabilities and equity					
Liabilities:					
Future policy benefits	$	$	$ 36,776	$	$ 36,776
Policyholder account balances			26,354		26,354
Liability for policy and contract claims			8,177		8,177

Unearned premiums			3,378		3,378
Other liabilities	11	340	3,256	(11)	3,596
Intercompany notes payable	68	592		(660)	
Borrowings related to securitization entities			173		173
Non-recourse funding obligations			310		310
Long-term borrowings		3,711	521		4,232
Deferred tax liability	(30)	(1,099)	1,578		449
Separate account liabilities			7,624		7,624
Liabilities held for sale			131		131
Total liabilities	49	3,544	88,278	(671)	91,200
Equity:					
Common stock	1				1
Additional paid-in capital	11,952	9,098	17,034	(26,132)	11,952
Accumulated other comprehensive income (loss)	4,185	4,242	4,224	(8,466)	4,185
Retained earnings	617	(1,589)	(5,005)	6,594	617
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	14,055	11,751	16,253	(28,004)	14,055
Noncontrolling interests			2,218	(300)	1,918
Total equity	14,055	11,751	18,471	(28,304)	15,973
Total liabilities and equity	$ 14,104	$ 15,295	$ 106,749	$ (28,975)	$ 107,173

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(Unaudited)

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

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Assets					
Investments:					
Fixed maturity securities available-for-sale, at fair value	$	$ 150	$ 58,247	$ (200)	$ 58,197
Equity securities available-for-sale, at fair value			310		310
Commercial mortgage loans			6,170		6,170
Restricted commercial mortgage loans related to securitization entities			161		161
Policy loans			1,568		1,568
Other invested assets		114	2,198	(3)	2,309
Restricted other invested assets related to securitization entities, at fair value			413		413
Investments in subsidiaries	12,814	12,989		(25,803)	
Total investments	12,814	13,253	69,067	(26,006)	69,128
Cash and cash equivalents		1,124	4,841		5,965
Accrued investment income			657	(4)	653
Deferred acquisition costs			4,398		4,398
Intangible assets and goodwill			357		357
Reinsurance recoverable			17,245		17,245
Other assets		199	323	(2)	520
Intercompany notes receivable		2	458	(460)	
Deferred tax assets	25	1,038	(908)		155
Separate account assets			7,883		7,883
Assets held for sale			127		127
Total assets	$ 12,839	$ 15,616	$ 104,448	$ (26,472)	$ 106,431
Liabilities and equity					
Liabilities:					
Future policy benefits	$	$	$ 36,475	$	$ 36,475
Policyholder account balances			26,209		26,209

Liability for policy and contract claims			8,095		8,095
Unearned premiums			3,308		3,308
Other liabilities	13	279	2,722	(10)	3,004
Intercompany notes payable	2	658		(660)	
Borrowings related to securitization entities			179		179
Non-recourse funding obligations			1,920		1,920
Long-term borrowings		4,078	492		4,570
Deferred tax liability			24		24
Separate account liabilities			7,883		7,883
Liabilities held for sale			127		127
Total liabilities	15	5,015	87,434	(670)	91,794
Equity:					
Common stock	1				1
Additional paid-in capital	11,949	9,097	17,007	(26,104)	11,949
Accumulated other comprehensive income (loss)	3,010	3,116	3,028	(6,144)	3,010
Retained earnings	564	(1,612)	(5,134)	6,746	564
Treasury stock, at cost	(2,700)				(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,824	10,601	14,901	(25,502)	12,824
Noncontrolling interests			2,113	(300)	1,813
Total equity	12,824	10,601	17,014	(25,802)	14,637
Total liabilities and equity	$ 12,839	$ 15,616	$ 104,448	$ (26,472)	$ 106,431

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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, 2016:

(Amounts in millions)	Parent Guarantor	Issuer	All Other Subsidiaries	Eliminations	Consolidated
Revenues:					
Premiums	$	$	$ 794	$	$ 794
Net investment income	(1)	(1)	795	(4)	789
Net investment gains (losses)		(15)	(4)		(19)
Policy fees and other income		(4)	225		221
Total revenues	(1)	(20)	1,810	(4)	1,785
Benefits and expenses:					
Benefits and other changes in policy reserves			860		860
Interest credited			177		177
Acquisition and operating expenses, net of deferrals	88	35	271		394
Amortization of deferred acquisition costs and intangibles			99		99
Interest expense	1	71	37	(4)	105
Total benefits and expenses	89	106	1,444	(4)	1,635
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(90)	(126)	366		150
Provision (benefit) for income taxes	(24)	(43)	90		23
Equity in income of subsidiaries	119	106		(225)	
Income from continuing operations	53	23	276	(225)	127
Loss from discontinued operations, net of taxes			(19)		(19)
Net income	53	23	257	(225)	108
Less: net income attributable to noncontrolling interests			55		55

Net income available to Genworth Financial, Inc. s common stockholders	$ 53	$ 23	$ 202	$ (225)	$ 53

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	$	$	$ 1,143	$	$ 1,143
Net investment income			785	(4)	781
Net investment gains (losses)		3	(19)		(16)
Policy fees and other income		(9)	236		227
Total revenues		(6)	2,145	(4)	2,135
Benefits and expenses:					
Benefits and other changes in policy reserves			1,192		1,192
Interest credited			180		180
Acquisition and operating expenses, net of deferrals	5	1	261		267
Amortization of deferred acquisition costs and intangibles			95		95
Interest expense		77	34	(4)	107
Total benefits and expenses	5	78	1,762	(4)	1,841
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(5)	(84)	383		294
Provision (benefit) for income taxes	(9)	(29)	129		91
Equity in income of subsidiaries	150	143		(293)	
Income from continuing operations	154	88	254	(293)	203
Income from discontinued operations, net of taxes			1		1
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

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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, 2016:

(Amounts in millions)	**Parent Guarantor**	**Issuer**	**All Other Subsidiaries**	**Eliminations**	**Consolidated**
Net income	$ 53	$ 23	$ 257	$ (225)	$ 108
Other comprehensive income (loss), net of taxes:					
Net unrealized gains (losses) on securities not other-than-temporarily impaired	807	789	809	(1,598)	807
Net unrealized gains (losses) on other-than-temporarily impaired securities	(4)	(5)	(4)	9	(4)
Derivatives qualifying as hedges	257	256	275	(531)	257
Foreign currency translation and other adjustments	115	86	217	(202)	216
Total other comprehensive income (loss)	1,175	1,126	1,297	(2,322)	1,276
Total comprehensive income (loss)	1,228	1,149	1,554	(2,547)	1,384
Less: comprehensive income attributable to noncontrolling interests			156		156
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 1,228	$ 1,149	$ 1,398	$ (2,547)	$ 1,228

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:					
	293	275	323	(568)	323

Net unrealized gains (losses) on securities not other-than-temporarily impaired					
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 (loss) attributable to noncontrolling interests			(64)		(64)
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ 400	$ 372	$ 463	$ (835)	$ 400

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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, 2016:

(Amounts in millions)	**Parent Guarantor**	**Issuer**	**All Other Subsidiaries**	**Eliminations**	**Consolidated**
Cash flows from operating activities:					
Net income	$ 53	$ 23	$ 257	$ (225)	$ 108
Less loss from discontinued operations, net of taxes			19		19
Adjustments to reconcile net income to net cash from operating activities:					
Equity in income from subsidiaries	(119)	(106)		225	
Dividends from subsidiaries		73	(73)		
Gain on sale of subsidiary			(20)		(20)
Amortization of fixed maturity securities discounts and premiums and limited partnerships			(38)		(38)
Net investment losses (gains)		15	4		19
Charges assessed to policyholders			(191)		(191)
Acquisition costs deferred			(50)		(50)
Amortization of deferred acquisition costs and intangibles			99		99
Deferred income taxes	(5)	(48)	60		7
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments		3	18		21
Stock-based compensation expense	5		2		7
Change in certain assets and liabilities:					
Accrued investment income and other assets	4	(45)	(113)	(5)	(159)
Insurance reserves			36		36
Current tax liabilities	(7)	(6)	5		(8)
Other liabilities, policy and contract claims and other policy-related balances	3	(65)	469	(1)	406
Net cash from operating activities	(66)	(156)	484	(6)	256
Cash flows from investing activities:					

Proceeds from maturities and repayments of investments:					
Fixed maturity securities		150	690		840
Commercial mortgage loans			192		192
Restricted commercial mortgage loans related to securitization entities			6		6
Proceeds from sales of investments:					
Fixed maturity and equity securities			905		905
Purchases and originations of investments:					
Fixed maturity and equity securities			(2,042)		(2,042)
Commercial mortgage loans			(200)		(200)
Other invested assets, net		100	(72)	6	34
Policy loans, net			10		10
Intercompany notes receivable		(66)	66		
Net cash from investing activities		184	(445)	6	(255)
Cash flows from financing activities:					
Deposits to universal life and investment contracts			571		571
Withdrawals from universal life and investment contracts			(517)		(517)
Redemption of non-recourse funding obligations			(1,620)		(1,620)
Repayment and repurchase of long-term debt		(326)			(326)
Repayment of borrowings related to securitization entities			(10)		(10)
Dividends paid to noncontrolling interests			(52)		(52)
Proceeds from intercompany notes payable	66	(66)			
Other, net			13		13
Net cash from financing activities	66	(392)	(1,615)		(1,941)
Effect of exchange rate changes on cash and cash equivalents			31		31
Net change in cash and cash equivalents		(364)	(1,545)		(1,909)
Cash and cash equivalents at beginning of period		1,124	4,869		5,993
Cash and cash equivalents at end of period		760	3,324		4,084
Less cash and cash equivalents held for sale at end of period			41		41
Cash and cash equivalents of continuing operations at end of period	$	$ 760	$ 3,283	$	$ 4,043

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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
Less income from discontinued operations, net of taxes			(1)		(1)
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			(21)		(21)
Net investment losses (gains)		(3)	19		16
Charges assessed to policyholders			(196)		(196)
Acquisition costs deferred			(86)		(86)
Amortization of deferred acquisition costs and intangibles			95		95
Deferred income taxes	(5)	(40)	70		25
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments		9	9		18
Stock-based compensation expense	2		(5)		(3)
Change in certain assets and liabilities:					
Accrued investment income and other assets	2	(7)	(23)	3	(25)
Insurance reserves			443		443
Current tax liabilities	(4)	66	(71)		(9)
Other liabilities, policy and contract claims and other policy-related balances		(60)	275	(13)	202
Cash from operating activities held for sale			(38)		(38)
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			1,089		1,089
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			418		418
Purchases and originations of investments:					
Fixed maturity and equity securities			(1,802)		(1,802)
Commercial mortgage loans			(247)		(247)
Other invested assets, net		(100)	1	10	(89)
Intercompany notes receivable	2	(10)	38	(30)	
Capital contributions to subsidiaries		(25)	25		
Cash from investing activities held for sale			54		54
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)		38		37
Cash from financing activities held for sale			(27)		(27)
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
Less cash and cash equivalents held for sale at end of period			221		221
Cash and cash equivalents from continuing operations at end of period	$	$ 820	$ 4,117	$	$ 4,937

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GENWORTH FINANCIAL, INC.

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(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, 2015, in accordance with applicable dividend restrictions, our subsidiaries could pay dividends of approximately $140 million to us in 2016 without obtaining regulatory approval, and the remaining net assets are considered restricted. While the $140 million is unrestricted, we do not expect our insurance subsidiaries to pay dividends to us in 2016 at this level if they need to retain capital for growth and to meet capital requirements and desired thresholds. As of March 31, 2016, Genworth Financial s and Genworth Holdings subsidiaries had restricted net assets of $14.0 billion and $14.1 billion, respectively.

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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 2015 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:

strategic risks including: our inability to successfully execute strategic plans to effectively address our current business challenges (including with respect to the restructuring of our U.S. life insurance businesses, cost savings, ratings and capital), our inability to complete the planned sale of our European mortgage insurance business at all or on the terms anticipated, and failure to attract buyers for 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; 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; or adverse tax or accounting charges; and 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;

risks relating to estimates, assumptions and valuations including: 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); inaccurate models; deviations from our estimates and actuarial assumptions or other reasons in our long-term care insurance, life insurance and/or annuity businesses; accelerated amortization of deferred acquisition costs (DAC) and present value of future profits (PVFP) (including as a result of any changes we may make to our assumptions, methodologies or otherwise in connection with periodic or other reviews); 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); and changes in valuation of fixed maturity, equity and trading securities;

risks relating to economic, market and political conditions including: downturns and volatility in global economies and equity and credit markets; interest rates and changes in rates; deterioration in economic conditions or a decline in home prices that adversely affect our loss experience in mortgage insurance; political and economic instability or changes in government policies; and fluctuations in foreign currency exchange rates and international securities markets;

regulatory and legal risks including: extensive regulation of our businesses and changes in applicable laws and regulations; litigation and regulatory investigations or other actions, including not receiving court approval of the planned settlement of *In re Genworth Financial, Inc. Securities Litigation*; 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 capital support for certain long-term care insurance related reinsurance arrangements); adverse change in regulatory requirements, including risk-based capital; changes in regulations adversely affecting our international operations; inability to meet or maintain the private mortgage insurer eligibility requirements (PMIERs); inability of our U.S. mortgage insurance subsidiaries to meet minimum statutory capital requirements and hazardous financial condition standards; the influence of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and a small number of large mortgage lenders on the U.S. mortgage insurance market and adverse changes to the role or structure of Fannie Mae and Freddie Mac; adverse changes in regulations affecting our mortgage insurance businesses; inability to continue to implement actions to mitigate the impact of statutory reserve requirements; impact of additional regulations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); and changes in accounting and reporting standards;

liquidity, financial strength ratings, credit and counterparty risks including: insufficient internal sources to meet liquidity needs and limited or no access to capital (including our inability to replace our credit facility); recent or future adverse rating agency actions, including with respect to rating downgrades or potential downgrades, 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; defaults by counterparties to reinsurance arrangements or derivative instruments; defaults or other events impacting the value of our fixed maturity securities portfolio; and defaults on our commercial mortgage loans or the mortgage loans underlying our investments in commercial mortgage-backed securities and volatility in performance;

operational risks including: inability to retain, attract and motivate qualified employees or senior management; ineffective or inadequate risk management in identifying, controlling or mitigating risks; reliance on, and loss of, key customer or distribution relationships; availability, affordability and adequacy of reinsurance to protect us against losses; competition; competition in our mortgage insurance businesses from government and government-owned and government-sponsored enterprises (GSEs) offering mortgage insurance; material weakness in, or ineffective, internal control over financial reporting; and 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;

insurance and product-related risks including: 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 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; failure to sufficiently increase new sales for our long-term care insurance products; inability to realize anticipated benefits of our rescissions, curtailments, loan modifications or other similar programs in our mortgage insurance businesses; premiums for the significant portion of our 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; decreases in the volume of high loan-to-value mortgage originations or increases in mortgage insurance cancellations; increases in the use of alternatives to private mortgage insurance and reductions in the level of coverage selected; potential liabilities in connection with our U.S. contract underwriting services; and medical advances, such as genetic research and diagnostic imaging, and related legislation that impact policyholder behavior in ways adverse to us;

other risks including: occurrence of natural or man-made disasters or a pandemic; impairments of or valuation allowances against our deferred tax assets; the possibility that in certain circumstances we will be obligated to make payments to General Electric Company (GE) under the tax matters agreement with GE even if our corresponding tax savings are never realized and payments could be accelerated in the event of certain changes in control; and provisions of our certificate of incorporation and bylaws and the tax matters agreement with GE may discourage takeover attempts and business combinations that stockholders might consider in their best interests; and

risks relating to our common stock including: the continued suspension of payment of dividends; and stock price fluctuations.

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

Overview

Our business

We are dedicated to helping meet the homeownership and long-term care needs of our customers. We have the following five operating business segments:

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

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

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

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

Runoff. The Runoff segment includes the results of non-strategic products which 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.

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

On December 1, 2015, we completed the sale of our lifestyle protection insurance business, which had previously been designated as a non-core business. Prior to its sale, our lifestyle protection insurance business was reported as discontinued operations and its financial position, results of operations and cash flows were separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 12 in our consolidated financial statements under Item 1 Financial Statements for additional information.

On October 27, 2015, we announced that Genworth Mortgage Insurance Company (GMICO), our wholly-owned indirect subsidiary, entered into an agreement to sell our European mortgage insurance business. As the held-for-sale criteria were satisfied during the fourth quarter of 2015, our European mortgage insurance business, included in Corporate and Other activities, has been reported as held for sale and its financial position is separately reported for all periods presented. All prior periods reflected herein have been re-presented on this basis. See note 12 in our consolidated financial statements under Item 1 Financial Statements for additional information.

Strategic Update

Our focus remains on improving business performance and increasing financial and strategic flexibility across the organization. Our strategy includes maximizing our opportunities in our mortgage insurance businesses and restructuring our U.S. life insurance businesses.

On February 4, 2016, as part of restructuring our U.S. life insurance businesses, we announced an initiative to: (i) suspend sales of our traditional life insurance and fixed annuity products; (ii) further reduce expense levels in 2016; (iii) repatriate existing business from Brookfield Life and Annuity Insurance Company Limited (BLAIC), our primary Bermuda domiciled reinsurance subsidiary, to our U.S. life insurance subsidiaries in 2016; and (iv) separate and potentially isolate our long-term care insurance business.

In the first quarter of 2016, we made progress on this plan. All sales of traditional life insurance and fixed annuity products were suspended on March 7, 2016. Expense actions taken to date are expected to reduce cash expenses by approximately $135 million pre-tax on an annualized basis. Effective April 1, 2016, we recaptured a block of universal life insurance from BLAIC to the U.S. life insurance companies. In March 2016, we successfully completed a bond consent solicitation, demonstrating progress toward the isolation of our long-term care insurance business. The bond consents permitted us to amend our bond indentures to: (i) eliminate concerns that any bankruptcy or insolvency-related events involving the subsidiary companies that operate our long-term care insurance business would result in a default of our bonds; and (ii) provide clarity on how Genworth Holdings debt would be treated in a sale or disposition of our life insurance, annuity and long-term care insurance businesses, eliminating uncertainty related to certain potential transactions.

In conjunction with this U.S. life insurance restructuring plan, we continue to remain open to strategic alternatives and are actively pursuing options that would accomplish the goal of separating and isolating the long-term care business from our other businesses and ultimately separating the mortgage insurance businesses from the U.S. life insurance businesses. The successful completion of the bond consent process, our efforts to reduce our holding company debt and our continuing progress in executing the U.S. life insurance restructuring plan to simplify our organization and reduce interdependencies are expected to provide additional strategic and financial flexibility. In assessing strategic options, we are considering many factors, including, the level of debt capacity, tax considerations, the views of regulators and rating agencies, and resulting impacts to book value, liquidity and other financial metrics.

Executive Summary of Financial Results

Below is an executive summary of our consolidated financial results for the periods indicated. Amounts below are net of taxes, unless otherwise indicated.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

We had net income available to Genworth Financial, Inc. s common stockholders of $53 million and $154 million during the three months ended March 31, 2016 and 2015, respectively.

During the three months ended March 31, 2016, we recorded a $45 million expense related to the planned settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $6 million of legal fees and expenses related to this litigation. We also recorded $3 million of additional legal fees in the current year related to other pending litigation.

We paid a make-whole expense of approximately $13 million in January 2016 related to the early redemption of Genworth Holdings senior notes due in 2016. We repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a gain of $2 million in the first quarter of 2016.

In the first quarter of 2016, we incurred expenses related to Genworth Holdings bond consent solicitation of $12 million for broker, advisor and investment banking fees.

During the three months ended March 31, 2016, we recorded $9 million related to restructuring costs as part of an expense reduction plan as we evaluate and appropriately size our organizational needs and expenses. In addition, we recorded a loss of $6 million from the write-off of deferred borrowing costs in connection with the early extinguishment of non-recourse funding obligations as part of a life block transaction completed in the first quarter of 2016.

Our financial results in our Australia mortgage insurance business were also lower as a result of the additional sale of shares of this business in May 2015, which reduced our ownership percentage to 52.0%.

We had an increase of $52 million in our long-term care insurance business in the current year driven by increased premiums and reduced benefits from in-force rate actions, partially offset by a $4 million unfavorable correction related to the calculation on our in-force rate actions.

During the three months ended March 31, 2016, we recorded an additional loss of $19 million related to the sale of our lifestyle protection insurance business and an estimated gain of $20 million related to the planned sale of our mortgage insurance business in Europe.

Significant Developments

The periods under review include, among others, the following significant developments.

Dispositions

Completed sale of a life insurance block. In January 2016, Genworth Life and Annuity Insurance Company (GLAIC), our indirect wholly-owned subsidiary, entered into a reinsurance agreement to coinsure certain term life insurance business with Protective Life Insurance Company (Protective Life) as part of a life block transaction. This transaction is expected to generate capital in excess of $150 million in aggregate to Genworth, including anticipated tax benefits of approximately $175 million to the holding company that are scheduled to be settled in July 2016, which are committed to be used in executing the restructuring plan for our U.S. life insurance businesses.

U.S. Life Insurance

Rate actions in our long-term care insurance business. As part of our strategy for our long-term care insurance business, we have been implementing, and expect to continue to pursue, significant premium rate increases on the older generation blocks of business that were written before 2002. We are also requesting premium rate increases on newer blocks of business, as needed. For all of these rate action filings, we received 21 filing approvals from six states in the first quarter of 2016, representing a weighted-average increase of 30% on approximately $144 million in annualized in-force premiums. We also submitted 19 new filings in 10 states in the first quarter of 2016 on approximately $206 million in annualized in-force premiums.

Liquidity and Capital Resources

Redemption of Genworth Holdings 2016 notes. In January 2016, Genworth Holdings redeemed $298 million of its 8.625% senior notes due 2016 issued in December 2009 (the 2016 Notes) and paid a make-whole premium of approximately $20 million pre-tax in addition to accrued and unpaid interest using cash proceeds received from the sale of our lifestyle protection insurance business.

Repurchase of Genworth Holdings senior notes. During the three months ended March 31, 2016, we repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a pre-tax gain of $4 million and paid accrued and unpaid interest thereon.

Completion of Genworth Holdings bond consent solicitation. Genworth Holdings paid total fees related to the bond consent solicitation of approximately $61 million, including bond consent fees of $43 million, which were deferred, as well as broker, advisor and investment banking fees of $18 million, which were expensed, in the first quarter of 2016.

Redemption of Non-Recourse Funding Obligations. During the three months ended March 31, 2016, in connection with a life block transaction, River Lake Insurance Company (River Lake), our indirect wholly-owned subsidiary, redeemed $975 million of its total outstanding floating rate subordinated notes due in 2033 and River Lake Insurance Company II (River Lake II), our indirect wholly-owned subsidiary, redeemed $645 million of its total outstanding floating rate subordinated notes due in 2035 for a pre-tax loss of $9 million from the write-off of deferred borrowing costs.

Financial Strength Ratings

There were no changes of the financial strength ratings of our insurance subsidiaries during the three months ended March 31, 2016 other than the downgrades previously disclosed in our Annual Report on Form 10-K filed on February 26, 2016.

Critical Accounting Estimates

As of March 31, 2016, other than as set forth below, there have been no material changes to critical accounting estimates set forth in our Annual Report on Form 10-K filed on February 26, 2016.

Deferred acquisition costs

Historically low interest rates spreads have impacted the margins on our fixed immediate annuity products. As of March 31, 2016 and December 31, 2015, we had margin of approximately $11 million and $19 million, respectively, on $5,758 million and $5,849 million, respectively, of net U.S. generally accepted accounting principles (U.S. GAAP) liability related to our fixed immediate annuity products. As of March 31, 2016 and December 31, 2015, we had DAC of $16 million and $17 million, respectively, related to our immediate annuity products. The risks we face include adverse variations in interest rates, credit spreads and/or mortality. Adverse experience in one or both of these risks could result in the DAC associated with our fixed immediate annuity products being no longer fully recoverable as well as the establishment of additional benefit reserves. As of March 31, 2016, for our fixed immediate annuity products, a combined 50 basis point reduction in interest rates or credit spreads, or 2% lower mortality, scenarios that we consider to be reasonably possible given historical changes in market conditions and experience on these products, would result in margin reduction of approximately $27 million or $23 million, respectively. In addition, if interest rates and credit spreads remain at current levels for an extended period of time, margins could decline further or become negative. Margin reduction below zero results in a premium deficiency and would result in a charge to current period earnings. Any favorable variation would result in additional margin in our DAC loss recognition analysis and would result in higher income recognition over the remaining duration of the in-force block. As of March 31, 2016, we believe all of our businesses have sufficient projected future income where the related DAC would be recoverable under selected adverse variations in our assumptions.

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Consolidated

General Trends and Conditions

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 as well as value of assets and liabilities. During 2015 and into 2016, 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 Europe and the Middle East and slow growth in China, which has kept interest rates low and resulted in decreases in oil and commodity prices.

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 as well as the value of assets and liabilities have been and could be further impacted 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, level of interest rates 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 actions to stimulate economies, stabilize financial systems and improve market liquidity. In aggregate, these actions had a positive effect in the short term on the economies of 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 interest rates and 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.

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Consolidated Results of Operations

The following is a discussion of our consolidated results of operations. For a discussion of our segment results, see Results of Operations and Selected Financial and Operating Performance Measures by Segment.

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

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

(Amounts in millions)	Three months ended March 31, 2016	Three months ended March 31, 2015	Increase (decrease) and percentage change 2016 vs. 2015	
Revenues:				
Premiums	$ 794	$ 1,143	$ (349)	(31)%
Net investment income	789	781	8	1%
Net investment gains (losses)	(19)	(16)	(3)	(19)%
Policy fees and other income	221	227	(6)	(3)%
Total revenues	1,785	2,135	(350)	(16)%
Benefits and expenses:				
Benefits and other changes in policy reserves	860	1,192	(332)	(28)%
Interest credited	177	180	(3)	(2)%
Acquisition and operating expenses, net of deferrals	394	267	127	48%
Amortization of deferred acquisition costs and intangibles	99	95	4	4%
Interest expense	105	107	(2)	(2)%
Total benefits and expenses	1,635	1,841	(206)	(11)%
Income from continuing operations before income taxes	150	294	(144)	(49)%
Provision for income taxes	23	91	(68)	(75)%
Income from continuing operations	127	203	(76)	(37)%
Income (loss) from discontinued operations, net of taxes	(19)	1	(20)	NM [1]
Net income	108	204	(96)	(47)%
Less: net income attributable to noncontrolling interests	55	50	5	10%
Net income available to Genworth Financial, Inc. s common stockholders	$ 53	$ 154	$ (101)	(66)%

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

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

Our U.S. Life Insurance segment decreased $342 million. Our life insurance business decreased $364 million principally related to higher ceded reinsurance in the current year. We initially ceded $326 million of certain term life insurance premiums under a new reinsurance treaty as part of a life block transaction. Our fixed annuities business decreased $7 million principally from lower sales of our life-contingent products resulting from the suspension of product offerings in the current year. Our long-term care insurance business increased $29 million largely from $31 million of increased premiums in the current year from in-force rate actions approved and implemented.

Our Canada Mortgage Insurance segment decreased $8 million driven by a $17 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. Excluding the effects of foreign exchange, our Canada Mortgage Insurance segment increased primarily from the seasoning of our larger in-force blocks of business in the current year.

Our Australia Mortgage Insurance segment decreased $8 million driven by a $10 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. Excluding the effects of foreign exchange, our Australia Mortgage Insurance segment increased primarily as a result of the refinements to premium recognition factors made in the third quarter of 2015, partially offset by the seasoning of our prior year in-force blocks of business and a decrease in premiums from a lower loan-to-value mix and flow volume in the current year.

Our U.S. Mortgage Insurance segment increased $10 million mainly attributable to higher average flow mortgage insurance in-force and the reversal of the accrual for premium refunds related to policy cancellations that was recorded in the third quarter of 2015, partially offset by higher ceded reinsurance premiums in the current year.

Net investment income. Net investment income represents the income earned on our investments. For discussion of the change in net investment income, see the comparison for this line item under Investments and Derivative Instruments.

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

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

Our Runoff segment decreased $7 million mainly attributable to lower account values in our variable annuity products in the current year.

Our U.S. Life Insurance segment decreased $3 million primarily from our life insurance business largely related to lower production and a decrease in our term universal and universal life insurance in-force blocks in the current year.

Our Australia Mortgage Insurance segment increased $4 million primarily due to non-functional currency transactions attributable to remeasurement and repayment of intercompany loans in the prior year that did not recur.

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

Our U.S. Life Insurance segment decreased $333 million. Our life insurance business decreased $337 million principally related to higher ceded reinsurance in the current year. We initially ceded $331 million of certain term life insurance reserves under a new reinsurance treaty as part of a life block transaction. Our fixed annuities business decreased $6 million largely attributable to lower sales of our life-contingent products and lower interest credited, partially offset by less favorable mortality in the current year. Our long-term care insurance business increased $10 million principally from aging and growth of the in-force block, lower terminations, higher severity on new claims, a $7 million unfavorable correction related to a calculation on our in-force rate actions and incremental reserves of $4 million recorded in connection with an accrual for profits followed by losses in the current year. These increases were partially offset by reduced benefits of $52 million in the current year related to in-force rate actions approved and implemented. The prior year also included net unfavorable adjustments of $11 million reflecting a refinement to a reserve calculation on our acquired block of business, partially offset primarily by a favorable correction related to reinsurance.

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Our U.S. Mortgage Insurance segment decreased $12 million primarily driven by a continued decline in new delinquencies primarily in our 2005 through 2008 book years, partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

Our Runoff segment increased $8 million primarily related to our variable annuity products from an increase in our guaranteed minimum death benefit (GMDB) reserves due to less favorable equity market performance and unfavorable mortality in our corporate-owned life insurance products in the current year.

Our Australia Mortgage Insurance segment increased $7 million primarily driven by a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur. The increase was also attributable to a higher average reserve per delinquency from aging of existing delinquencies primarily in commodity-dependent regions, partially offset by favorable cures in the current year. The three months ended March 31, 2016 included a decrease of $3 million attributable to changes in foreign exchange rates.

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

Our U.S. Life Insurance segment decreased $6 million primarily related to our fixed annuities business driven by a decrease in average account values and lower crediting rates in the current year.

Our Runoff segment increased $3 million largely related to higher loan cash values in our corporate-owned life insurance products in the current year.

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

Corporate and Other activities increased $123 million mainly driven by $69 million for the planned settlement of *In re Genworth Financial, Inc. Securities Litigation* and an additional $10 million of legal fees and expenses related to this litigation. In addition, we paid a make-whole expense of $20 million on the early redemption of Genworth Holdings 2016 senior notes in January 2016, and paid broker, advisor and investment banking fees of $18 million associated with Genworth Holdings bond consent solicitation in March 2016. The increase was also attributable to an additional estimated loss of $7 million recorded in the first quarter of 2016 related to the planned sale of our mortgage insurance business in Europe and $4 million of additional legal fees in the current year related to other pending litigation. We also had higher net expenses after allocations to our operating segments in the current year.

Our Canada Mortgage Insurance segment increased $6 million mainly from higher stock-based compensation expense driven by an increase in Genworth MI Canada Inc. s (Genworth Canada) share price in the current year. The three months ended March 31, 2016 also included a decrease of $2 million attributable to changes in foreign exchange rates.

Amortization of deferred acquisition costs and intangibles. Amortization of deferred acquisition costs and intangibles consists primarily of the amortization of acquisition costs that are capitalized, PVFP and capitalized software. Our U.S. Life Insurance segment increased $5 million. Our life insurance business increased $3 million largely related to the write-off of computer software in connection with a restructuring charge in the current year. Our fixed annuities business increased $2 million largely attributable to a less favorable unlocking primarily related to lapses in the current year.

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

Corporate and Other activities decreased $5 million largely driven by the redemption of $298 million of Genworth Holdings senior notes in January 2016.

Our U.S. Life Insurance segment increased $3 million driven by our life insurance business principally from the write-off of $9 million of deferred borrowing costs associated with our non-recourse funding obligations as part of a life block transaction and from the impact of credit rating downgrades which increased the cost of financing term life insurance reserves, partially offset by lower letter of credit fees in the current year.

Provision for income taxes. The effective tax rate decreased to 15.2% for the three months ended March 31, 2016 from 30.9% for the three months ended March 31, 2015. The decrease in the effective tax rate was primarily attributable to the reversal of a deferred tax valuation allowance related to our mortgage insurance business in Europe in the current year. The decrease was also related to tax benefits related to the planned sale of our mortgage insurance business in Europe in the current year as well as higher state income tax true ups in the prior year. These decreases were partially offset by international tax true ups in the prior year and higher stock-based compensation in the current year. The three months ended March 31, 2016 included a decrease of $6 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests represents the portion of income in a subsidiary attributable to third parties. The increase was primarily related to the additional sale of shares of our Australian mortgage insurance business in May 2015, which reduced our ownership percentage to 52.0%. The three months ended March 31, 2016 included a decrease of $8 million attributable to changes in foreign exchange rates.

Reconciliation of net income to net operating income

Net operating income for the three months ended March 31, 2016 and 2015 was $103 million and $154 million, respectively. 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.

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.

The following table includes a reconciliation of net income available to Genworth Financial, Inc. s common stockholders to net operating income for the periods indicated:

	Three months ended March 31,	
(Amounts in millions)	**2016**	**2015**
Net income available to Genworth Financial, Inc. s common stockholders	$ 53	$ 154
Net income attributable to noncontrolling interests	55	50
Net income	108	204
Income (loss) from discontinued operations, net of taxes	(19)	1
Income from continuing operations	127	203
Less: net income attributable to noncontrolling interests	55	50
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	72	153
Adjustments to income from continuing operations available to Genworth Financial, Inc. s common stockholders:		
Net investment (gains) losses, net	13	1
(Gains) losses on sale of businesses, net	(20)	
(Gains) losses on early extinguishment of debt, net	11	
(Gains) losses from life block transactions, net	6	
Expenses related to restructuring, net	9	
Fees associated with bond consent solicitation, net	12	
Net operating income	$ 103	$ 154

In the first quarter of 2016, we recorded an estimated gain of $20 million, net of taxes, related to the planned sale of our mortgage insurance business in Europe.

In January 2016, we paid a make-whole expense of $13 million, net of taxes, related to the early redemption of Genworth Holdings 2016 Notes. We also repurchased $28 million principal amount of Genworth Holdings notes with various maturity dates for a gain of $2 million, net of taxes, in the first quarter of 2016. These transactions were excluded for net operating income for the periods presented as they related to a gain (loss) on the early extinguishment of debt.

In the first quarter of 2016, we completed a life block transaction resulting in an after-tax loss of $6 million in connection the early extinguishment of non-recourse funding obligations.

In the first quarter of 2016, we recorded an after-tax expense of $9 million related to restructuring costs as part of an expense reduction plan as we evaluate and appropriately size our organizational needs and expenses.

There were no infrequent or unusual items excluded from net operating income during the periods presented other than fees incurred during the first quarter of 2016 related to Genworth Holdings bond consent solicitation of $12 million, net of taxes, for broker, advisor and investment banking fees.

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Earnings per share

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

(Amounts in millions, except per share amounts)	Three months ended March 31, 2016	2015
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.14	$ 0.31
Diluted	$ 0.14	$ 0.31
Net income available to Genworth Financial, Inc. s common stockholders per common share:		
Basic	$ 0.11	$ 0.31
Diluted	$ 0.11	$ 0.31
Net operating income per common share:		
Basic	$ 0.21	$ 0.31
Diluted	$ 0.21	$ 0.31
Weighted-average common shares outstanding:		
Basic	498.0	497.0
Diluted	499.4	498.9

Diluted weighted-average common shares outstanding reflect the effects of potentially dilutive securities including stock options, restricted stock units and other equity-based compensation.

Results of Operations and Selected Financial and Operating Performance Measures by Segment

Our chief operating decision maker evaluates segment performance and allocates resources on the basis of net operating income (loss). See note 9 in our unaudited condensed consolidated financial statements under Item 1 Financial Statements for a reconciliation of net operating income of our segments and Corporate and Other activities to net income available to Genworth Financial, Inc. s common stockholders.

We allocate our consolidated provision for income taxes to our operating segments. Our allocation methodology applies a specific tax rate to the pre-tax income (loss) of each segment, which is then adjusted in each segment to reflect the tax attributes of items unique to that segment such as foreign income. The difference between the consolidated provision for income taxes and the sum of the provision for income taxes in each segment is reflected in Corporate and Other activities. The annually-determined tax rates and adjustments to each segment s provision for income taxes are estimates which are subject to review and could change from year to year. The effective tax rates disclosed herein are calculated using whole dollars. As a result, the percentages shown may differ from an effective tax rate calculated using rounded numbers.

Management s discussion and analysis by segment contains selected operating performance measures including sales and insurance in-force or risk in-force which are commonly used in the insurance industry as measures of operating performance.

Management regularly monitors and reports sales metrics as a measure of volume of new and renewal business generated in a period. Sales refer to: (1) new insurance written for mortgage insurance; (2) annualized first-year premiums for long-term care and term life insurance products; (3) annualized first-year deposits plus

5% of excess deposits for universal and term universal life insurance products; (4) 10% of premium deposits for linked-benefits products; and (5) new and additional premiums/deposits for fixed annuities. Sales do not include renewal premiums on policies or contracts written during prior periods. We consider new insurance written, annualized first-year premiums/deposits, premium equivalents and new premiums/deposits to be a measure of our operating performance because they represent a measure of new sales of insurance policies or contracts during a specified period, rather than a measure of our revenues or profitability during that period.

Management regularly monitors and reports insurance in-force and risk in-force. Insurance in-force for our mortgage and life insurance businesses is a measure of the aggregate face value of outstanding insurance policies as of the respective reporting date. For risk in-force in our mortgage insurance businesses, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Risk in-force for our U.S. mortgage insurance business is our obligation that is limited under contractual terms to the amounts less than 100% of the mortgage loan value. Effective risk in-force has been calculated by applying to insurance in-force a factor of 35% that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Canada and Australia. In Australia, we have certain risk share arrangements where we provide pro-rata coverage of certain loans rather than 100% coverage. As a result, for loans with these risk share arrangements, the applicable pro-rata coverage amount provided is used when applying the factor. We consider insurance in-force and risk in-force to be measures of our operating performance because they represent measures of the size of our business at a specific date which will generate revenues and profits in a future period, rather than measures of our revenues or profitability during that period.

Management also regularly monitors and reports a loss ratio for our businesses. For our mortgage insurance businesses, the loss ratio is the ratio of incurred losses and loss adjustment expenses to net earned premiums. For our long-term care insurance business, the loss ratio is the ratio of benefits and other changes in reserves less tabular interest on reserves less loss adjustment expenses to net earned premiums. We consider the loss ratio to be a measure of underwriting performance in these businesses and helps to enhance the understanding of the operating performance of our businesses.

An assumed tax rate of 35% is utilized in certain adjustments to net operating income (loss) and in the explanation of specific variances of operating performance.

These operating performance measures enable us to compare our operating performance across periods without regard to revenues or profitability related to policies or contracts sold in prior periods or from investments or other sources.

U.S. Mortgage Insurance segment

Trends and conditions

Results of our U.S. mortgage insurance business are affected primarily by the following factors: competitor actions; unemployment or underemployment levels; other economic and housing market trends, including interest rates, home prices, and 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 contributed adversely to the performance of our insured portfolio relating to our 2005 through 2008 book years. 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.

The level of private mortgage insurance industry market penetration and eventual market size is affected in part by actions taken by the GSEs, the Federal Housing Administration (FHA), the Federal Housing Finance

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Agency (FHFA), the U.S. Congress or the U.S. government which impact housing or housing finance policy. In the past, these actions have included announced changes, or potential changes, to underwriting standards, FHA pricing, GSE guaranty fees and loan limits as well as low-down-payment programs available through the FHA or GSEs.

Mortgage origination volume increased modestly from the fourth quarter of 2015, as higher refinance mortgage loan origination volume offset seasonally-lower purchase mortgage loan origination volume. Mortgage interest rates moved slightly lower during the first quarter of 2016, as higher volatility in the U.S. and international financial markets and a weaker outlook for global economic growth reduced U.S. Treasury yields and residential mortgage-backed securities. The relative increase in refinance mortgages compared to purchase mortgages resulted in a mix of originations with fewer purchase mortgages in the first quarter of 2016 compared to the fourth quarter of 2015. Because purchase mortgages typically are insured with private mortgage insurance more often than refinance mortgages, a mix of overall originations containing fewer purchase money mortgages results in a smaller private mortgage insurance market. Our U.S. mortgage insurance estimated market share remained stable during the first quarter of 2016.

New insurance written in the first quarter of 2016 increased 17% compared to the first quarter of 2015 but decreased 5% compared to the fourth quarter of 2015 consistent with normal seasonal declines in purchase originations. We continue to manage the quality of new business through our underwriting guidelines, which we modify from time to time when circumstances warrant. The percentage of single premium new insurance written increased modestly in the first quarter of 2016 reflecting our selective participation in this market. Future volumes of these products will vary depending in part on our evaluation of their risk return profile of these transactions. We have observed changes in competitor pricing protocols as well as continued highly competitive pricing with monthly premium borrower paid mortgage insurance during the first quarter of 2016. In March 2016, we introduced a new monthly premium borrower paid rate card which aligned our pricing with the factors promulgated by the GSEs in the revised industry-wide risk-based capital requirements under PMIERs. Our updated rate card features reduced rates across all loan-to-value ratios for borrowers with credit scores above 740, is broadly competitive with the industry, including the FHA, and results in a weighted-average rate consistent with our prior rate card given our current mix of business.

Our loss ratio decreased to 24% for the three months ended March 31, 2016 reflecting lower new delinquencies. New delinquencies during the first quarter of 2016 decreased compared to the first quarter of 2015 and the fourth quarter of 2015 due to macroeconomic improvements including improvements in unemployment rates and in housing values. The majority of new delinquencies in the first quarter of 2016 continued to come from our 2005 through 2008 book years. We have observed improvement in the ultimate claim expectations from early stage delinquencies through the first quarter of 2016. Foreclosure starts and the number of paid claims decreased during the first quarter of 2016 as compared to the first quarter of 2015. In addition, the older delinquencies that remain in our portfolio, particularly those from our 2005 through 2008 book years, continued to age through the first quarter of 2016 from the lengthening of the foreclosure process. This aging has resulted in increased claims expenses relative to claims paid during the period prior to the 2008 financial crisis when the industry was experiencing a shorter foreclosure process than at present. Overall, we have seen a reduction in loans that have been subject to a modification or workout in the first quarter of 2016 compared to the first quarter of 2015. We expect our level of loan modifications to continue to decline going forward in line with the expected reduction in delinquent loans and the continuing aging of delinquencies. Depending on our experience going forward, we may need to adjust our reserve frequency or severity assumptions as experience from these programs continues to emerge.

As of March 31, 2016, GMICO s risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance (NCDOI), GMICO s domestic insurance regulator, was approximately 15.5:1, compared with a risk-to-capital ratio of approximately 16.4:1 as of December 31, 2015. This risk-to-capital ratio remains below the NCDOI s maximum risk-to-capital ratio of 25:1.

GMICO s ongoing risk-to-capital ratio will depend principally on the magnitude of future losses

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incurred by GMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, the amount of policy lapses, the amount of additional capital that is generated within the business or capital support (if any) that we provide and changes in the value of affiliate assets.

Effective December 31, 2015, each GSE adopted revised PMIERs which set forth operational and financial requirements that mortgage insurers must meet in order to remain eligible. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report as to its compliance with PMIERs. We have met all PMIERs reporting requirements as required by the GSEs to date. As of March 31, 2016, we estimate our U.S. mortgage insurance business had available assets of approximately 113% of the required assets under PMIERs compared to 109% as of December 31, 2015. This increase was driven primarily by a higher valuation of our U.S mortgage insurance business holdings in Genworth Canada, the impact of foreign exchange and the reduction in delinquent loans.

In 2015, our U.S. mortgage insurance business entered into three separate reinsurance transactions for the primary purpose of obtaining capital credit under PMIERs in order to meet the PMIERs financial requirements. Beginning January 1, 2016, the reinsurance treaty covering our 2015 book year includes all eligible mortgage insurance certificates issued through the fourth quarter of 2015. The three reinsurance transactions provided an aggregate of approximately $525 million of PMIERs capital credit as of March 31, 2016.

As of March 31, 2016, loans modified through the Home Affordable Refinance Program (HARP) accounted for approximately $16.9 billion of insurance in-force, with $15.8 billion of those loans from our 2005 through 2008 book years. The volume of new HARP modifications continues to decrease as the number of loans that would benefit from a HARP modification decreases. Loans modified through HARP have extended amortization periods and reduced interest rates, which reduce borrower s monthly payments. Over time, we expect these modified loans to result in extended premium streams and a lower incidence of default. The U.S. government has extended HARP through the year ending December 31, 2016. For financial reporting purposes, we report HARP modified loans as a modification of the coverage on existing insurance in-force rather than new insurance written.

On April 14, 2016, FHFA announced the Principal Reduction Modification program for borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac and who meet specific eligibility criteria. FHFA expects that approximately 33,000 borrowers will be eligible for the program but because actual participation will be dependent upon the effectiveness of loan servicer solicitations and loan modification processes, we are not anticipating a material impact on our results of operations.

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Segment results of operations

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

The following table sets forth the results of operations relating to our U.S. Mortgage Insurance segment for the periods indicated:

(Amounts in millions)	Three months ended March 31, 2016	2015	Increase (decrease) and percentage change 2016 vs. 2015	
Revenues:				
Premiums	$ 160	$ 150	$ 10	7%
Net investment income	15	19	(4)	(21)%
Net investment gains (losses)	(1)		(1)	NM [1]
Policy fees and other income	1	1		%
Total revenues	175	170	5	3%
Benefits and expenses:				
Benefits and other changes in policy reserves	38	50	(12)	(24)%
Acquisition and operating expenses, net of deferrals	39	37	2	5%
Amortization of deferred acquisition costs and intangibles	3	2	1	50%
Total benefits and expenses	80	89	(9)	(10)%
Income from continuing operations before income taxes	95	81	14	17%
Provision for income taxes	34	29	5	17%
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	61	52	9	17%
Adjustment to income from continuing operations available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net				%
Net operating income	$ 61	$ 52	$ 9	17%

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

Net operating income

Net operating income increased in the current year mainly attributable to a continued decline in new delinquencies and higher premiums, partially offset by a lower benefit from net cures and aging of existing delinquencies.

Revenues

Premiums increased mainly attributable to higher average flow mortgage insurance in-force and the reversal of the accrual for premium refunds related to policy cancellations that was recorded in the third quarter of 2015, partially offset by higher ceded reinsurance premiums in the current year.

Net investment income decreased primarily from lower intercompany dividends received of approximately $8 million as a result of the intercompany sale of U.S. mortgage insurance s ownership interest in affiliate preferred securities in July 2015. This decrease was partially offset by higher average invested assets in the current year.

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Benefits and expenses

Benefits and other changes in policy reserves decreased due to a continued decline in new delinquencies primarily in our 2005 through 2008 book years, partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

Acquisition and operating expenses, net of deferrals, increased primarily from higher employee compensation expense that resulted from growth in sales in the current year. This increase was partially offset by a write-off of software in the prior year that did not recur.

Provision for income taxes. The effective tax rate increased slightly to 35.8% for the three months ended March 31, 2016 from 35.7% for the three months ended March 31, 2015. The increase in the effective tax rate was primarily attributable to changes in state taxes.

U.S. Mortgage Insurance selected operating performance measures

The following table sets forth selected operating performance measures regarding our U.S. Mortgage Insurance segment as of or for the dates indicated:

(Amounts in millions)	As of or for the three months ended March 31, 2016	2015	Increase (decrease) and percentage change 2016 vs. 2015	
Primary insurance in-force	$ 124,100	$ 115,200	$ 8,900	8%
Risk in-force	31,600	28,900	2,700	9%
New insurance written	7,400	6,300	1,100	17%
Net premiums written	176	170	6	4%

Primary insurance in-force and risk in-force

Primary insurance in-force increased primarily as a result of the increase of $9.8 billion in flow insurance in-force, which increased from $111.9 billion as of March 31, 2015 to $121.7 billion as of March 31, 2016 as a result of new insurance written during the current year. The increase in flow insurance in-force was partially offset by a decline of $0.9 billion in bulk insurance in-force, which decreased from $3.3 billion as of March 31, 2015 to $2.4 billion as of March 31, 2016 from cancellations and lapses. In addition, risk in-force increased primarily as a result of higher flow new insurance written. Flow persistency was 82% and 81% for the three months ended March 31, 2016 and 2015, respectively.

New insurance written

New insurance written increased in the current year primarily driven by a larger purchase originations market and an increase in our market share. We also had a lower concentration of single premium lender paid business reflecting our decision to selectively participate in the market.

Net premiums written

Net premiums written increased due to higher flow insurance in-force and the reversal of the accrual for premium refunds related to policy cancellations that was recorded in the third quarter of 2015, partially offset by higher ceded reinsurance premiums in the current year.

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Loss and expense ratios

The following table sets forth the loss and expense ratios for our U.S. Mortgage Insurance segment for the dates indicated:

	Three months ended March 31,		Increase (decrease)
	2016	2015	2016 vs. 2015
Loss ratio	24%	33%	(9)%
Expense ratio (net earned premiums)	26%	26%	%
Expense ratio (net premiums written)	24%	23%	1%

The loss ratio is the ratio of incurred losses and loss adjustment expenses to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our business, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of deferred acquisition costs and intangibles.

The loss ratio decreased primarily from a continued decline in new delinquencies primarily in our 2005 through 2008 book years, in addition to higher net earned premiums attributable to higher average flow mortgage insurance in-force and the reversal of the accrual for premium refunds related to policy cancellations that was recorded in the third quarter of 2015, partially offset by higher ceded reinsurance premiums in the current year. These decreases were partially offset by a lower net benefit from cures and aging of existing delinquencies in the current year.

The expense ratio (net premiums written) increased slightly from higher employee compensation expense that resulted from growth in sales, mostly offset by higher net premiums in the current year. The prior year also included a write-off of software that did not recur.

Delinquent loans

The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our U.S. mortgage insurance portfolio as of the dates indicated:

	March 31, 2016	December 31, 2015	March 31, 2015
Primary insurance:			
Insured loans in-force	655,300	651,668	631,591
Delinquent loans	27,602	31,663	35,665
Percentage of delinquent loans (delinquency rate)	4.21%	4.86%	5.65%
Flow loan in-force	632,010	627,349	601,472
Flow delinquent loans	26,491	30,416	34,220
Percentage of flow delinquent loans (delinquency rate)	4.19%	4.85%	5.69%
Bulk loans in-force	23,290	24,319	30,119

Bulk delinquent loans [1]	1,111	1,247	1,445
Percentage of bulk delinquent loans (delinquency rate)	4.77%	5.13%	4.80%
A minus and sub-prime loans in-force	26,995	28,332	33,805
A minus and sub-prime loans delinquent loans	5,546	6,448	7,019
Percentage of A minus and sub-prime delinquent loans (delinquency rate)	20.54%	22.76%	20.76%
Pool insurance:			
Insured loans in-force	6,406	6,620	7,979
Delinquent loans	369	386	468
Percentage of delinquent loans (delinquency rate)	5.76%	5.83%	5.87%

(1) Included loans where we were in a secondary loss position for which no reserve was established due to an existing deductible. Excluding these loans, bulk delinquent loans were 776 as of March 31, 2016, 889 as of December 31, 2015 and 984 as of March 31, 2015.

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Total delinquencies related to our 2005 through 2008 book years have declined as the United States has continued to experience improvement in its residential real estate market.

The following tables set forth flow delinquencies, direct case reserves and risk in-force by aged missed payment status in our U.S. mortgage insurance portfolio as of the dates indicated:

	March 31, 2016			
(Dollar amounts in millions)	Delinquencies	Direct case reserves [1]	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	8,082	$ 45	$ 337	13%
4 - 11 payments	7,065	176	294	60%
12 payments or more	11,344	477	559	85%
Total	26,491	$ 698	$ 1,190	59%

[1] Direct flow case reserves exclude loss adjustment expenses, incurred but not reported and reinsurance reserves.

	December 31, 2015			
(Dollar amounts in millions)	Delinquencies	Direct case reserves [1]	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less	10,103	$ 52	$ 405	13%
4 - 11 payments	7,366	180	307	59%
12 payments or more	12,947	543	638	85%
Total	30,416	$ 775	$ 1,350	57%

[1] Direct flow case reserves exclude loss adjustment expenses, incurred but not reported and reinsurance reserves.

Primary insurance delinquency rates differ from region to region in the United States at any one time depending upon economic conditions and cyclical growth patterns. The tables below set forth our primary delinquency rates for the various regions of the United States and the 10 largest states by our risk in-force as of the dates indicated. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

	Percent of primary risk	Percent of total reserves as	Delinquency rate

	in-force as of March 31, 2016	of March 31, 2016 [1]	March 31, 2016	December 31, 2015	March 31, 2015
By Region:					
Southeast [2]	19%	23%	5.00%	5.78%	6.92%
South Central [3]	16	7	3.35%	3.81%	4.03%
Northeast [4]	14	34	7.92%	8.91%	10.04%
Pacific [5]	13	8	2.54%	3.01%	4.03%
North Central [6]	12	9	3.30%	3.89%	4.72%
Great Lakes [7]	10	6	2.95%	3.50%	3.96%
New England [8]	6	6	4.20%	4.71%	5.75%
Mid-Atlantic [9]	6	5	4.38%	5.05%	5.71%
Plains [10]	4	2	3.20%	3.70%	3.88%
Total	100%	100%	4.21%	4.86%	5.65%

(1) Total reserves were $768 million as of March 31, 2016.

(2) Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina and Tennessee.

(3) Arizona, Colorado, Louisiana, New Mexico, Oklahoma, Texas and Utah.

(4) New Jersey, New York and Pennsylvania.

(5) Alaska, California, Hawaii, Nevada, Oregon and Washington.

(6) Illinois, Minnesota, Missouri and Wisconsin.

(7) Indiana, Kentucky, Michigan and Ohio.

(8) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

(9) Delaware, Maryland, Virginia, Washington D.C. and West Virginia.

(10) Idaho, Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota and Wyoming.

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	Percent of primary risk in-force as of March 31, 2016	Percent of total reserves as of March 31, 2016 (1)	Delinquency rate March 31, 2016	December 31, 2015	March 31, 2015
By State:					
California	7%	3%	1.91%	2.26%	2.75%
Texas	7%	3%	3.30%	3.90%	3.97%
New York	6%	16%	8.21%	9.07%	10.11%
Florida	6%	14%	6.54%	7.71%	10.87%
Illinois	6%	6%	3.98%	4.70%	5.98%
Pennsylvania	4%	4%	5.30%	6.20%	6.94%
New Jersey	4%	13%	11.38%	12.71%	14.40%
Ohio	4%	3%	3.52%	4.14%	4.61%
Michigan	4%	1%	2.08%	2.56%	2.97%
North Carolina	3%	2%	4.24%	4.75%	5.20%

(1) Total reserves were $768 million as of March 31, 2016.

The following table sets forth the dispersion of our total reserves and primary insurance in-force and risk in-force by year of policy origination and average annual mortgage interest rate as of March 31, 2016:

(Amounts in millions)	Average rate	Percent of total reserves (1)	Primary insurance in-force	Percent of total	Primary risk in-force	Percent of total
Policy Year						
2004 and prior	6.04%	11.9%	$ 3,714	3.0%	$ 833	2.6%
2005	5.65%	11.7	3,310	2.7	898	2.9
2006	5.84%	17.2	5,498	4.4	1,431	4.6
2007	5.74%	37.1	14,236	11.5	3,588	11.4
2008	5.28%	16.8	12,181	9.8	3,089	9.8
2009	4.95%	0.6	1,679	1.4	393	1.2
2010	4.69%	0.7	2,121	1.7	534	1.7
2011	4.53%	0.6	3,020	2.4	781	2.5
2012	3.83%	0.6	7,749	6.2	2,032	6.5
2013	4.01%	1.0	13,719	11.1	3,548	11.3
2014	4.40%	1.4	19,256	15.5	4,886	15.5
2015	4.10%	0.4	30,277	24.4	7,603	24.2
2016	4.12%		7,336	5.9	1,838	5.8
Total portfolio	4.73%	100.0%	$ 124,096	100.0%	$ 31,454	100.0%

(1) Total reserves were $768 million as of March 31, 2016.

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Canada Mortgage Insurance segment

Trends and conditions

Results of our mortgage insurance business in Canada are affected primarily by changes in the regulatory environment, 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. During the first quarter of 2016, the U.S. dollar strengthened against the Canadian dollar as compared with first quarter of 2015, which negatively impacted the results of our mortgage insurance business in Canada as reported in U.S. dollars. However, we experienced some reversal in this trend near the end of the quarter as the Canadian dollar strengthened. Any future movement in foreign exchange rates could impact future results.

We closely monitor economic conditions across Canada due to the impact adverse changes in economic conditions can have on our results. The Canadian gross domestic product is expected to have experienced growth in the first quarter of 2016. The impact of continued low commodity prices, particularly oil, was more than offset by a strengthening non-resource export market in the first quarter of 2016, driven by weakness in the Canadian dollar. Although low commodities prices, particularly oil, continue to negatively impact economic growth, especially in the provinces of Alberta, Newfoundland and Labrador and Saskatchewan, Canadian gross domestic product is expected to grow by 1.7% in 2016 in comparison to 1.2% in 2015, and we anticipate growth rates to vary across different provinces. Federal government stimulus is expected to boost growth despite the uncertainty and volatility in the commodities market. We continue to monitor oil prices as part of our portfolio risk management strategy.

The overnight interest rate in Canada remained flat at 0.50% in the first quarter of 2016. With oil prices remaining well below historical averages and shrinking business investment in the energy sector, the low interest rate environment is expected to continue throughout 2016. Despite the continued pressure on oil prices and its impact to oil-producing provinces, Canada s unemployment rate remained flat at 7.1% at the end of the first quarter of 2016 compared to the end of 2015. Home sales in Canada increased approximately 12% in the first quarter of 2016 compared to the first quarter in 2015 and approximately 2% compared to the fourth quarter of 2015. The national average home price increased modestly as of the end of the first quarter of 2016 compared to the first quarter of 2015 and the fourth quarter of 2015. New construction and activity in the resale market were strong in British Columbia and Ontario, while there were declines in housing activity in the oil-producing provinces. In 2016, the ending national average home price is expected to increase modestly compared to the end of 2015 and resales are expected to increase from 2015 levels but at a lower rate compared to the increase experienced in the first quarter of 2016. The Canadian housing market is expected to continue to experience significant regional variations with weakness in the oil-producing regions offset by strong housing markets in British Columbia and Ontario.

New delinquencies and the average reserve per delinquency in our mortgage insurance business in Canada increased in the first quarter of 2016 compared to the first quarter of 2015 primarily due to ongoing economic pressure in oil-producing regions. As compared to the fourth quarter of 2015, the increase in new delinquencies and average reserve per delinquency were also attributable to seasonality. Our loss ratio in Canada increased 24% for the three months ended March 31, 2016. We expect our loss ratio in Canada to be modestly higher throughout the remainder of 2016 due to the impact of low oil prices.

In the first quarter of 2016, our mortgage insurance business in Canada experienced a modest reduction in new insurance written volumes due to targeted underwriting changes in certain regions and a slowing housing market in oil-producing regions compared to both the first quarter of 2015 and the fourth quarter of 2015. Additionally, the decrease in new insurance written volumes from the fourth quarter of 2015 was also attributable to seasonality. Given this recent experience as well as the economic uncertainties, we expect modestly lower net premiums written from flow mortgage insurance in 2016 compared to 2015. However, given the size of our more recent books and recent price increases, we expect earned premiums to be moderately higher throughout 2016 than in 2015 (excluding impact from foreign exchange movements).

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Bulk new insurance written levels were lower in the first quarter of 2016 compared to the first quarter of 2015 due to lower customer demand. In Canada, our new insurance written from bulk mortgage insurance varies from period to period based on a number of factors, including the amount of portfolio mortgages lenders seek to insure, the competitiveness of our pricing and our risk appetite for such mortgage insurance. On June 6, 2015, the Canadian government published draft regulations to limit bulk mortgage insurance to only those mortgages that will be used in Canada Mortgage and Housing Corporation securitization programs and to prohibit the use of government guaranteed insured mortgages in private securitizations. The regulations will become effective on July 1, 2016. Although it is difficult to determine the full impact from this and other regulatory changes, the regulations have resulted in an increase in demand for bulk mortgage insurance in Canada in the second quarter of 2016 and we anticipate a decrease in demand from the July 1 effective date forward. To date, we have seen increased demand for bulk mortgage insurance in advance of this most recent change. Subsequent to the end of the first quarter of 2016, our mortgage insurance business in Canada has insured approximately CAD$22.0 billion of bulk mortgage insurance of high credit quality in the first three weeks in April 2016.

We are subject to regulation under the Protection of Residential Mortgage or Hypothecary Insurance Act (Canada) (PRMHIA). Under PRMHIA and the Insurance Companies Act (Canada), our mortgage insurance business in Canada is required to meet a minimum capital test (MCT) to support its outstanding mortgage insurance in-force. The MCT ratio is calculated based on a methodology prescribed by OSFI. The Department of Finance in Canada has established a target MCT ratio for our mortgage insurance business in Canada of 175% under PRMHIA. We regularly review our capital levels and, after reviewing stress testing results and consulting with OSFI in 2014, we have established an operating MCT holding target of 220% pending the development of the new capital framework for mortgage insurers, which is targeted for implementation in 2017. The holding target of 220% MCT is designed to provide a prudent capital buffer to allow time to take necessary actions should capital levels be pressured by deteriorating macroeconomic conditions. As of March 31, 2016, our MCT ratio was approximately 234%, which was above the MCT holding target.

As previously disclosed, the Office of the Superintendent of Financial Institutions (OSFI) plans to update the regulatory capital framework for loans secured by residential real properties for both federally regulated mortgage insurers and deposit-taking institutions. OSFI will consult with federally regulated financial institutions and other stakeholders before making any changes, initially through a directed consultation with the industry in 2016, followed by broader public consultation later in the year. OSFI expects to have final rules in place no later than 2017. The anticipated changes may impact the regulatory capital requirements for our mortgage insurance business in Canada. We will continue to closely monitor the development of this framework.

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Segment results of operations

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

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

(Amounts in millions)	Three months ended March 31, 2016	Three months ended March 31, 2015	Increase (decrease) and percentage change 2016 vs. 2015	
Revenues:				
Premiums	$ 111	$ 119	$ (8)	(7)%
Net investment income	29	34	(5)	(15)%
Net investment gains (losses)	20	(18)	38	NM [1]
Policy fees and other income		1	(1)	(100)%
Total revenues	160	136	24	18%
Benefits and expenses:				
Benefits and other changes in policy reserves	26	25	1	4%
Acquisition and operating expenses, net of deferrals	18	12	6	50%
Amortization of deferred acquisition costs and intangibles	9	9		%
Interest expense	4	5	(1)	(20)%
Total benefits and expenses	57	51	6	12%
Income from continuing operations before income taxes	103	85	18	21%
Provision for income taxes	29	22	7	32%
Income from continuing operations	74	63	11	17%
Less: net income attributable to noncontrolling interests	34	29	5	17%
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	40	34	6	18%
Adjustment to income from continuing operations available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net	(7)	6	(13)	NM [1]
Net operating income	$ 33	$ 40	$ (7)	(18)%

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

Net operating income

Net operating income decreased mainly driven by a $6 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. The decrease was also attributable to higher taxes and operating expenses in the current year.

Revenues

Premiums decreased driven by a $17 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. Excluding the effects of foreign exchange, premiums increased $9 million primarily from the seasoning of our larger in-force blocks of business in the current year.

Net investment income decreased from a $5 million decrease attributable to changes in foreign exchange rates in the current year.

Net investment gains in the current year were primarily driven by derivative gains largely from hedging non-functional currency transactions. Net investment losses in the prior year were mainly from derivative losses largely from hedging non-functional currency transactions, partially offset by net gains from the sale of investment securities. The three months ended March 31, 2016 also included a decrease of $2 million attributable to changes in foreign exchange rates.

Benefits and expenses

Benefits and other changes in policy reserves increased due to an increase in change in reserves of $5 million from an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity in certain regions in the current year. The three months ended March 31, 2016 also included a decrease of $4 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, increased mainly driven by higher stock-based compensation expense from an increase in Genworth Canada s share price in the current year. The three months ended March 31, 2016 also included a decrease of $2 million attributable to changes in foreign exchange rates.

Provision for income taxes. The effective tax rate increased to 27.8% for three months ended March 31, 2016 from 25.7% for the three months ended March 31, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income. The three months ended March 31, 2016 included a decrease of $4 million attributable to changes in foreign exchange rates.

Canada Mortgage Insurance selected operating performance measures

The following table sets forth selected operating performance measures regarding our Canada Mortgage Insurance segment as of or for the dates indicated:

	As of or for the three months ended March 31,		**Increase (decrease) and percentage change**	
(Amounts in millions)	**2016**	**2015**	**2016 vs. 2015**	
Primary insurance in-force	$ 317,400	$ 288,800	$ 28,600	10%
Risk in-force	$ 111,100	$ 101,100	$ 10,000	10%
New insurance written	$ 5,700	$ 8,300	$ (2,600)	(31)%
Net premiums written	$ 84	$ 109	$ (25)	(23)%

Primary insurance in-force and risk in-force

Our mortgage insurance business in Canada currently provides 100% coverage on the majority of the loans we insure in that market. For the purpose of representing our risk in-force, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our business in Canada. For the three months ended March 31, 2016 and 2015, this factor was 35%.

Primary insurance in-force and risk in-force increased primarily as a result of flow new insurance written and bulk mortgage insurance activity. Insurance in-force and risk in-force included decreases of $8.3 billion and $2.9 billion, respectively, attributable to changes in foreign exchange rates during the three months ended March 31, 2016.

New insurance written

New insurance written decreased primarily as a result of lower bulk mortgage insurance activity and lower flow new insurance written. The decrease in flow new insurance written was driven by targeted underwriting changes and a slowing housing market in oil-producing regions in the current year. The three months ended March 31, 2016 included a decrease of $900 million attributable to changes in foreign exchange rates.

Net premiums written

Our mortgage insurance policies in Canada provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected pattern of risk emergence. As of March 31, 2016, our unearned premium reserves were $1,527 million, compared to $1,411 million as of March 31, 2015.

Net premiums written decreased primarily from lower bulk mortgage insurance activity from lower customer demand and lower flow volume from targeted underwriting changes and a slowing housing market in oil-producing regions in the current year. These decreases were partially offset by the price increase on high loan-to-value premiums effective June 1, 2015, which resulted in higher net premiums written. The three months ended March 31, 2016 included a decrease of $13 million attributable to changes in foreign exchange rates.

Loss and expense ratios

The following table sets forth the loss and expense ratios for our Canada Mortgage Insurance segment for the periods indicated:

	Three months ended March 31,		Increase (decrease)
	2016	2015	2016 vs. 2015
Loss ratio	24%	22%	2%
Expense ratio (net earned premiums)	24%	18%	6%
Expense ratio (net premiums written)	32%	20%	12%

The loss ratio is the ratio of incurred losses and loss adjustment expenses to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our mortgage insurance business in Canada, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of deferred acquisition costs and intangibles.

The loss ratio increased primarily from an increase in the number of new delinquencies, net of cures, and a higher average reserve per delinquency from higher severity in certain regions, partially offset by higher premiums in the current year.

The expense ratio (net earned premiums) increased primarily attributable to higher stock-based compensation expense driven by an increase in Genworth Canada s share price in the current year, partially offset by higher premiums primarily from the seasoning of our larger in-force blocks of business in the current year.

The expense ratio (net premiums written) increased primarily attributable to higher stock-based compensation expense driven by an increase in Genworth Canada s share price in the current year and lower net premiums written in the current year.

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Delinquent loans

The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our Canada mortgage insurance portfolio as of the dates indicated:

	March 31, 2016	December 31, 2015	March 31, 2015
Primary insured loans in-force	1,860,978	1,835,916	1,704,483
Delinquent loans	2,034	1,829	1,792
Percentage of delinquent loans (delinquency rate)	0.11%	0.10%	0.11%
Flow loans in-force	1,341,636	1,331,773	1,266,626
Flow delinquent loans	1,711	1,550	1,532
Percentage of flow delinquent loans (delinquency rate)	0.13%	0.12%	0.12%
Bulk loans in-force	519,342	504,143	437,857
Bulk delinquent loans	323	279	260
Percentage of bulk delinquent loans (delinquency rate)	0.06%	0.06%	0.06%

Flow mortgage loans in-force increased from new policies written and bulk mortgage loans in-force increased from bulk activity. The number of delinquent loans increased primarily from ongoing economic pressures in oil producing regions.

As a part of enhanced lender reporting, we receive updated outstanding loans in-force in Canada from most of our customers on a quarter lag. Based on the data provided by lenders, the 2016 delinquency rate as of December 31, 2015 was approximately 0.21%, reflecting a lower number of outstanding loans and related policies in-force compared to our reported policies in-force using the original terms of the loan.

Primary insurance delinquency rates differ by the various provinces and territories of Canada at any one time depending upon economic conditions and cyclical growth patterns. The table below sets forth our primary delinquency rates for the various provinces and territories of Canada by our risk in-force as of the dates indicated. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

	Percent of primary risk in-force as of March 31, 2016	Delinquency rate		
		March 31, 2016	December 31, 2015	March 31, 2015
By province and territory:				
Ontario	47%	0.05%	0.05%	0.05%
Alberta	17	0.16%	0.12%	0.09%
British Columbia	14	0.06%	0.08%	0.13%
Quebec	13	0.20%	0.19%	0.19%
Saskatchewan	3	0.21%	0.17%	0.15%

Nova Scotia	2	0.20%	0.18%	0.23%
Manitoba	2	0.10%	0.09%	0.07%
New Brunswick	1	0.21%	0.20%	0.22%
All other	1	0.14%	0.13%	0.12%
Total	100%	0.11%	0.10%	0.11%

Delinquency rates increased slightly primarily drive by more commodity dependent regions such as Alberta and Saskatchewan due to economic pressures related to low commodity prices.

Australia Mortgage Insurance segment

Trends and conditions

Results of our mortgage insurance business in Australia are affected primarily 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. During the first quarter of 2016, the U.S. dollar strengthened against the Australian dollar as compared with first quarter of 2015, which negatively impacted the results of our mortgage insurance business in Australia as reported in U.S. dollars. However, the average rates were relatively consistent with the prior quarter. Any future movement in foreign exchange rates could impact future results.

In Australia, the overall economy continued to expand during the first quarter of 2016, with anticipated moderate growth in the gross domestic product in the first quarter of 2016, reflecting contributions from tourism and resource exports, offset by weak domestic demand. At the same time, housing activity improved primarily from sustained low interest rates, with the cash rate remaining at 2.0% through the first quarter of 2016. Job creation slowed in the first quarter of 2016 with a minimal addition of jobs reported during the period. The March 2016 unemployment rate fell to 5.7% from 5.8% at the end of 2015.

Home prices in Australia continued to appreciate in the first quarter of 2016, with March 2016 home values approximately 6% higher than a year ago and approximately 2% higher than at the end of 2015. The Sydney and Melbourne housing markets continue to be the major driver with annual home price growth of approximately 7% and 10%, respectively, as of the end of the first quarter of 2016. We expect home price appreciation for 2016 will moderate compared to 2015 levels.

Our mortgage insurance business in Australia had a higher average reserve per delinquency in the first quarter of 2016 compared to the first quarter of 2015 as a result of higher concentration of later stage delinquencies. Compared to the fourth quarter of 2015, delinquencies increased due to seasonality as well as economic pressures primarily in commodity-dependent regions within Queensland and Western Australia. China s economic slowdown has also impacted mining demand and investments in these areas. In addition, these regions are impacted by changes in commodity prices, which have remained below historical levels. If these regional trends continue, the loss ratio in the aggregate in Australia, which was 26% for the three months ended March 31, 2016, could increase. We will continue to closely monitor these economic conditions and assess their impact on our business.

In Australia, gross written premiums in the first quarter of 2016 were lower compared to the first quarter of 2015 partly due to the termination of a customer relationship with respect to new business effective in the second quarter of 2015. Compared to both the fourth quarter of 2015 and the first quarter of 2015, our mortgage insurance business in Australia experienced a decrease in gross written premiums driven by a reduction in high loan-to-value mortgage origination volume resulting from regulatory changes restricting loans originated for investment properties and high loan-to-value lending as the Australian Prudential Regulation Authority (APRA) continues to focus on lending standards, investment lending and serviceability. Our average premium rate in Australia has also been impacted by the tighter lending standards resulting in a shift of our flow new insurance written to lower loan-to-value products that have a lower premium rate and risk. Consequently, we expect high loan-to-value mortgages in proportion to total originations to be lower in 2016 compared to 2015. This will likely result in a decrease in both gross written premiums and earned premiums in 2016 despite the price increase, which was effective in March 2016.

Our mortgage insurance business in Australia evaluates its capital position in relation to the Prescribed Capital Amount (PCA) as determined by APRA, utilizing the Internal Capital Adequacy Assessment Process (ICAAP) as the framework to ensure that our Australia group of companies as a whole, and each regulated

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entity, are independently capitalized to meet regulatory requirements. As of March 31, 2016, the estimated PCA ratio of our mortgage insurance business in Australia was approximately 168% representing an increase from the 159% as of December 31, 2015 as a result of changes to reinsurance programs that were effective in 2016 and from capital releases on the seasoning of in-force business outpacing the capital required for the lower levels of new business. In the first quarter of 2016, Genworth Mortgage Insurance Australia Limited (Genworth Australia) announced a plan to execute an AUD$202 million capital reduction initiative in the second quarter of 2016. The plan is designed to return a portion of surplus capital equitably to all of its shareholders and ensure Genworth Australia maintains an efficient capital structure. This capital reduction plan has received APRA approval but is subject to Genworth Australia shareholder approval. As of March 31, 2016, if the plan was approved and executed, our estimated PCA ratio in our mortgage insurance business would have decreased to approximately 155%.

Segment results of operations

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

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

(Amounts in millions)	Three months ended March 31, 2016	Three months ended March 31, 2015	Increase (decrease) and percentage change 2016 vs. 2015	
Revenues:				
Premiums	$ 81	$ 89	$ (8)	(9)%
Net investment income	24	32	(8)	(25)%
Net investment gains (losses)		1	(1)	(100)%
Policy fees and other income		(4)	4	100%
Total revenues	105	118	(13)	(11)%
Benefits and expenses:				
Benefits and other changes in policy reserves	21	14	7	50%
Acquisition and operating expenses, net of deferrals	19	22	(3)	(14)%
Amortization of deferred acquisition costs and intangibles	3	5	(2)	(40)%
Interest expense	3	2	1	50%
Total benefits and expenses	46	43	3	7%
Income from continuing operations before income taxes	59	75	(16)	(21)%
Provision for income taxes	19	24	(5)	(21)%
Income from continuing operations	40	51	(11)	(22)%
Less: net income attributable to noncontrolling interests	21	21		%
	19	30	(11)	(37)%

Income from continuing operations available to Genworth Financial, Inc. s common stockholders				
Adjustment to income from continuing operations available to Genworth Financial, Inc. s common stockholders:				
Net investment (gains) losses, net				%
Net operating income	$ 19	$ 30	$ (11)	(37)%

Net operating income

Net operating income decreased primarily driven by higher losses and lower net investment income in the current year. The decrease was also from the additional sale of shares of this business in May 2015, which reduced our ownership percentage to 52.0%. The three months ended March 31, 2016 also included a decrease of $3 million attributable to changes in foreign exchange rates.

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Revenues

Premiums decreased driven by a $10 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. Excluding the effects of foreign exchange, premiums increased primarily as a result of the refinements to premium recognition factors made in the third quarter of 2015, partially offset by the seasoning of our prior year in-force blocks of business and a decrease in premiums from a lower loan-to-value mix and flow volume in the current year.

Net investment income decreased primarily from lower average invested assets and a $3 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016.

Policy fees and other income increased primarily due to non-functional currency transactions attributable to remeasurement and repayment of intercompany loans in the prior year that did not recur.

Benefits and expenses

Benefits and other changes in policy reserves increased due to a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur. The increase was also attributable to a higher average reserve per delinquency from aging of existing delinquencies primarily in commodity-dependent regions, partially offset by favorable cures in the current year. The three months ended March 31, 2016 included a decrease of $3 million attributable to changes in foreign exchange rates.

Acquisition and operating expenses, net of deferrals, decreased primarily from a decrease of $2 million attributable to changes in foreign exchange rates during three months ended March 31, 2016.

Provision for income taxes. The effective tax rate increased to 32.7% for the three months ended March 31, 2016 from 30.5% for the three months ended March 31, 2015. The increase in the effective tax rate was primarily attributable to decreased tax benefits from lower taxed foreign income. The three months ended March 31, 2016 included a decrease of $2 million attributable to changes in foreign exchange rates.

Net income attributable to noncontrolling interests was flat driven by a $3 million decrease attributable to changes in foreign exchange rates during the three months ended March 31, 2016. Excluding the effects of foreign exchange, net income attributable to noncontrolling interests increased primarily related the additional sale of shares of this business in May 2015, which reduced our ownership percentage to 52.0%.

Australia Mortgage Insurance selected operating performance measures

The following table sets forth selected operating performance measures regarding our Australia Mortgage Insurance segment as of or for the dates indicated:

	As of or for the three months ended March 31,		Increase (decrease) and percentage change	
(Amounts in millions)	**2016**	**2015**	**2016 vs. 2015**	
Primary insurance in-force	$ 246,800	$ 240,900	$ 5,900	2%

Risk in-force	$ 86,000	$ 84,300	$ 1,700	2%
New insurance written	$ 4,400	$ 5,800	$ (1,400)	(24)%
Net premiums written	$ 47	$ 87	$ (40)	(46)%

Primary insurance in-force and risk in-force

Our mortgage insurance business in Australia currently provides 100% coverage on the majority of the loans we insure in those markets. For the purpose of representing our risk in-force, we have computed an effective risk in-force amount, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated by applying to insurance in-force a factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our business in Australia. For the three months ended March 31, 2016 and 2015, this factor was 35%. We also we have certain risk share arrangements where we provide pro-rata coverage of certain loans rather than 100% coverage. As a result, for loans with these risk share arrangements, the applicable pro-rata coverage amount provided is used when applying the factor.

Primary insurance in-force and risk in-force increased primarily from flow new insurance written. Insurance in-force and risk in-force also included increases of $1.3 billion and $0.5 billion, respectively, attributable to changes in foreign exchange rates during the three months ended March 31, 2016.

New insurance written

New insurance written decreased mainly attributable to a smaller high loan-to-value originations market primarily driven by a reduction in the amount of risk lenders are willing to take in the current year resulting from regulatory focus on the market, as well as the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The three months ended March 31, 2016 included a decrease of $500 million attributable to changes in foreign exchange rates.

Net premiums written

Most of our Australian mortgage insurance policies provide for single premiums at the time that loan proceeds are advanced. We initially record the single premiums to unearned premium reserves and recognize the premiums earned over time in accordance with the expected pattern of risk emergence. As of March 31, 2016, our unearned premium reserves were $976 million, compared to $1,036 million as of March 31, 2015.

Net premiums written decreased primarily from changes in the loan-to-value mix in the current year, as well as the impact of the termination of a customer relationship with respect to new business in the second quarter of 2015. The three months ended March 31, 2016 included a decrease of $6 million attributable to changes in foreign exchange rates.

Loss and expense ratios

The following table sets forth the loss and expense ratios for our Australia Mortgage Insurance segment for the periods indicated:

	Three months ended March 31,		Increase (decrease)
	2016	2015	2016 vs. 2015
Loss ratio	26%	15%	11%
Expense ratio (net earned premiums)	27%	30%	(3)%
Expense ratio (net premiums written)	47%	31%	16%

The loss ratio is the ratio of incurred losses and loss adjustment expenses to net earned premiums. The expense ratio (net earned premiums) is the ratio of general expenses to net earned premiums. The expense ratio (net premiums written) is the ratio of general expenses to net premiums written. In our mortgage insurance business in Australia, general expenses consist of acquisition and operating expenses, net of deferrals, and amortization of deferred acquisition costs and intangibles.

The loss ratio increased primarily driven by a favorable adjustment of $7 million in the first quarter of 2015 related to the expected recovery of claims paid in prior periods that did not recur. The increase was also attributable to a higher average reserve per delinquency from aging of existing delinquencies primarily in commodity-dependent regions, partially offset by favorable cures in the current year. The favorable adjustment decreased the loss ratio by nine percentage points for the three months ended March 31, 2015.

The expense ratio (net earned premiums) decreased from higher premiums from refinements to premium recognition factors made in the third quarter of 2015, partially offset by the seasoning of our prior year in-force blocks of business and a decrease in premiums from a lower loan-to-value mix and flow volume in the current year. The decrease was also attributable to lower operating expenses in the current year.

The expense ratio (net premiums written) increased primarily from lower net premiums written in the current year.

Delinquent loans

The following table sets forth the number of loans insured, the number of delinquent loans and the delinquency rate for our Australia mortgage insurance portfolio as of the dates indicated:

	March 31, 2016	December 31, 2015	March 31, 2015
Primary insured loans in-force	1,479,544	1,478,434	1,498,197
Delinquent loans	5,889	5,552	5,378
Percentage of delinquent loans (delinquency rate)	0.40%	0.38%	0.36%
Flow loans in-force	1,366,914	1,364,628	1,382,156
Flow delinquent loans	5,633	5,317	5,112
Percentage of flow delinquent loans (delinquency rate)	0.41%	0.39%	0.37%
Bulk loans in-force	112,630	113,806	116,041
Bulk delinquent loans	256	235	266
Percentage of bulk delinquent loans (delinquency rate)	0.23%	0.21%	0.23%

Flow loans in-force and bulk loans in-force decreased compared to March 31, 2015 from policy cancellations. Flow delinquent loans increased as new delinquencies more than offset cures and paid claims primarily as a result of economic pressures in commodity dependent regions.

Primary insurance delinquency rates differ by the various states and territories of Australia at any one time depending upon economic conditions and cyclical growth patterns. The table below sets forth our primary delinquency rates for the states and territories of Australia by our risk in-force as of the dates indicated. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender.

	Percent of primary risk in-force as of March 31, 2016	Delinquency rate		
		March 31, 2016	December 31, 2015	March 31, 2015
By state and territory:				
New South Wales	29%	0.29%	0.27%	0.29%

Queensland	23	0.55%	0.53%	0.50%
Victoria	23	0.35%	0.33%	0.32%
Western Australia	11	0.53%	0.46%	0.37%
South Australia	&n			