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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 June 30, 2015

OR

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

For the transition period from __________ to __________

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**80-0873306** **(I.R.S. Employer** **Identification Number)**
6620 West Broad Street **Richmond, Virginia** **(Address of Principal Executive Offices)**	**23230** **(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 July 31, 2015, 497,419,100 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)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 60,568	$ 61,276
Equity securities available-for-sale, at fair value	299	275
Commercial mortgage loans	6,175	6,100
Restricted commercial mortgage loans related to securitization entities	181	201
Policy loans	1,584	1,501
Other invested assets	2,191	2,244
Restricted other invested assets related to securitization entities, at fair value	410	411
Total investments	71,408	72,008
Cash and cash equivalents	4,100	4,716
Accrued investment income	615	664
Deferred acquisition costs	4,896	4,849
Intangible assets	286	250
Goodwill	15	16
Reinsurance recoverable	17,297	17,314
Other assets	625	524
Separate account assets	8,702	9,208
Assets held for sale related to discontinued operations	1,220	1,809
Total assets	$ 109,164	$ 111,358
Liabilities and stockholders equity		
Liabilities:		
Future policy benefits	$ 36,298	$ 35,915
Policyholder account balances	25,987	26,032
Liability for policy and contract claims	7,990	7,937
Unearned premiums	3,431	3,547
Other liabilities ($34 and $45 of other liabilities are related to securitization entities)	3,136	3,282
Borrowings related to securitization entities ($84 and $85 are at fair value)	199	219

Non-recourse funding obligations	1,967	1,996
Long-term borrowings	4,607	4,639
Deferred tax liability	258	858
Separate account liabilities	8,702	9,208
Liabilities held for sale related to discontinued operations	862	928
Total liabilities	93,437	94,561
Commitments and contingencies		
Stockholders equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 586 million and 585 million shares issued as of June 30, 2015 and December 31, 2014, respectively; 497 million shares outstanding as of June 30, 2015 and December 31, 2014	1	1
Additional paid-in capital	11,940	11,997
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,606	2,431
Net unrealized gains (losses) on other-than-temporarily impaired securities	22	22
Net unrealized investment gains (losses)	1,628	2,453
Derivatives qualifying as hedges	1,913	2,070
Foreign currency translation and other adjustments	(232)	(77)
Total accumulated other comprehensive income (loss)	3,309	4,446
Retained earnings	1,140	1,179
Treasury stock, at cost (88 million shares as of June 30, 2015 and December 31, 2014)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	13,690	14,923
Noncontrolling interests	2,037	1,874
Total stockholders equity	15,727	16,797
Total liabilities and stockholders equity	$ 109,164	$ 111,358

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenues:				
Premiums	$ 1,134	$ 1,144	$ 2,277	$ 2,276
Net investment income	793	791	1,574	1,567
Net investment gains (losses)	8	34	(8)	16
Insurance and investment product fees and other	222	225	449	451
Total revenues	2,157	2,194	4,292	4,310
Benefits and expenses:				
Benefits and other changes in policy reserves	1,232	1,200	2,424	2,348
Interest credited	181	184	361	367
Acquisition and operating expenses, net of deferrals	295	282	562	555
Amortization of deferred acquisition costs and intangibles	101	108	196	212
Interest expense	103	112	210	223
Total benefits and expenses	1,912	1,886	3,753	3,705
Income from continuing operations before income taxes	245	308	539	605
Provision for income taxes	70	84	161	171
Income from continuing operations	175	224	378	434
Income (loss) from discontinued operations, net of taxes	(314)	4	(313)	13
Net income (loss)	(139)	228	65	447
Less: net income attributable to noncontrolling interests	54	52	104	87
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (193)	$ 176	$ (39)	$ 360
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ 0.24	$ 0.35	$ 0.55	$ 0.70
Diluted	$ 0.24	$ 0.34	$ 0.55	$ 0.69

Net income (loss) available to Genworth Financial, Inc. s common stockholders per common share:				
Basic	$ (0.39)	$ 0.35	$ (0.08)	$ 0.73
Diluted	$ (0.39)	$ 0.35	$ (0.08)	$ 0.72
Weighted-average common shares outstanding:				
Basic	497.4	496.6	497.2	496.2
Diluted	499.3	503.6	499.1	503.2
Supplemental disclosures:				
Total other-than-temporary impairments	$	$ (2)	$ (3)	$ (3)
Portion of other-than-temporary impairments included in other comprehensive income (loss)				
Net other-than-temporary impairments		(2)	(3)	(3)
Other investments gains (losses)	8	36	(5)	19
Total net investment gains (losses)	$ 8	$ 34	$ (8)	$ 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 June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income (loss)	$ (139)	$ 228	$ 65	$ 447
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(1,138)	533	(815)	1,239
Net unrealized gains (losses) on other-than-temporarily impaired securities	(2)	1		7
Derivatives qualifying as hedges	(334)	114	(157)	333
Foreign currency translation and other adjustments	53	148	(317)	127
Total other comprehensive income (loss)	(1,421)	796	(1,289)	1,706
Total comprehensive income (loss)	(1,560)	1,024	(1,224)	2,153
Less: comprehensive income (loss) attributable to noncontrolling interests	40	113	(24)	117
Total comprehensive income (loss) available to Genworth Financial, Inc. s common stockholders	$ (1,600)	$ 911	$ (1,200)	$ 2,036

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc. s stockholders equity	Noncontrolling interests	Total stockholders equity
Balances as of December 31, 2014	$ 1	$ 11,997	$ 4,446	$ 1,179	$ (2,700)	$ 14,923	$ 1,874	$ 16,797
Additional sale of subsidiary shares to noncontrolling interests		(65)	24			(41)	267	226
Repurchase of subsidiary shares							(17)	(17)
Comprehensive income (loss):								
Net income (loss)				(39)		(39)	104	65
Net unrealized gains (losses) on securities not other-than-temporarily impaired			(811)			(811)	(4)	(815)
Net unrealized gains (losses) on other-than-temporarily impaired securities								
Derivatives qualifying as hedges			(157)			(157)		(157)
Foreign currency translation and other adjustments			(193)			(193)	(124)	(317)
Total comprehensive income (loss)						(1,200)	(24)	(1,224)
Dividends to noncontrolling interests							(66)	(66)
Stock-based compensation expense and exercises and other		8				8	3	11

Balances as of June 30, 2015	$ 1	$ 11,940	$ 3,309	$ 1,140	$ (2,700)	$ 13,690	$ 2,037	$ 15,727
Balances as of December 31, 2013	$ 1	$ 12,127	$ 2,542	$ 2,423	$ (2,700)	$ 14,393	$ 1,227	$ 15,620
Initial sale of subsidiary shares to noncontrolling interests		(145)	(57)			(202)	713	511
Comprehensive income (loss):								
Net income				360		360	87	447
Net unrealized gains (losses) on securities not other-than-temporarily impaired			1,217			1,217	22	1,239
Net unrealized gains (losses) on other-than-temporarily impaired securities			7			7		7
Derivatives qualifying as hedges			333			333		333
Foreign currency translation and other adjustments			119			119	8	127
Total comprehensive income (loss)						2,036	117	2,153
Dividends to noncontrolling interests							(27)	(27)
Stock-based compensation expense and exercises and other		4				4	3	7
Balances as of June 30, 2014	$ 1	$ 11,986	$ 4,161	$ 2,783	$ (2,700)	$ 16,231	$ 2,033	$ 18,264

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash flows from operating activities:		
Net income	$ 65	$ 447
Less (income) loss from discontinued operations, net of taxes	313	(13)
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(49)	(76)
Net investment losses (gains)	8	(16)
Charges assessed to policyholders	(393)	(376)
Acquisition costs deferred	(155)	(183)
Amortization of deferred acquisition costs and intangibles	196	212
Deferred income taxes	103	42
Net increase (decrease) in trading securities, held-for-sale investments and derivative instruments	(193)	79
Stock-based compensation expense	8	14
Change in certain assets and liabilities:		
Accrued investment income and other assets	(51)	(65)
Insurance reserves	866	793
Current tax liabilities	(91)	(182)
Other liabilities, policy and contract claims and other policy-related balances	(97)	(100)
Cash from operating activities discontinued operations	(19)	2
Net cash from operating activities	511	578
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	2,395	2,479
Commercial mortgage loans	436	262
Restricted commercial mortgage loans related to securitization entities	21	17
Proceeds from sales of investments:		
Fixed maturity and equity securities	821	1,180
Purchases and originations of investments:		
Fixed maturity and equity securities	(4,397)	(4,715)
Commercial mortgage loans	(514)	(347)
Other invested assets, net	(39)	190
Policy loans, net	3	4
Cash from investing activities discontinued operations	13	(8)

Net cash from investing activities	(1,261)	(938)
Cash flows from financing activities:		
Deposits to universal life and investment contracts	1,142	1,548
Withdrawals from universal life and investment contracts	(1,079)	(1,270)
Redemption of non-recourse funding obligations	(30)	(14)
Proceeds from issuance of long-term debt		144
Repayment and repurchase of long-term debt		(621)
Repayment of borrowings related to securitization entities	(19)	(17)
Proceeds from sale of subsidiary shares to noncontrolling interests	226	519
Repurchase of subsidiary shares	(17)	
Dividends paid to noncontrolling interests	(66)	(27)
Other, net	9	(19)
Cash from financing activities discontinued operations	(39)	(13)
Net cash from financing activities	127	230
Effect of exchange rate changes on cash and cash equivalents (includes $(3) and $2 related to discontinued operations	(41)	54
Net change in cash and cash equivalents	(664)	(76)
Cash and cash equivalents at beginning of period	4,918	4,214
Cash and cash equivalents at end of period	4,254	4,138
Less cash and cash equivalents of discontinued operations at end of period	154	254
Cash and cash equivalents of continuing operations at end of period	$ 4,100	$ 3,884

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

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

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 have the following operating segments:

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

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

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

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In June 2015, our Board of Directors approved a transaction to sell our lifestyle protection insurance business, which had previously been designated as a non-core business. Because the business is available for immediate sale and the sale is anticipated to occur during the next 12 months and certain other criteria were met, the held-for-sale criteria was satisfied during the second quarter of 2015. As a result, we recorded an estimated loss to reduce the carrying value of the business to the fair value less pension settlement costs and closing costs. Our lifestyle protection insurance business, previously the only business in the International Protection segment, has been reported as discontinued operations and its financial position, results of operations and cash flows are 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 2014 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 six months ended June 30, 2014 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 $311 million and the change in other liabilities, policy and contract claims and other policy-related balances increased by $311 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

a) Accounting Pronouncements Recently Adopted

On January 1, 2015, we early adopted new accounting guidance related to measuring the financial assets and financial liabilities of a consolidated collateralized financing entity. The guidance addresses the accounting for the measurement difference between the fair value of financial assets and the fair value of financial liabilities of a collateralized financing entity. The new guidance provides an alternative whereby a reporting entity could measure the financial assets and financial liabilities of the collateralized financing entity in its consolidated financial statements using the more observable of the fair values. There was no impact on our consolidated financial statements.

On January 1, 2015, we adopted new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financings. The new guidance changed the accounting for repurchase-to-maturity transactions and repurchase financing such that they were consistent with secured borrowing accounting. In addition, the guidance required new disclosures for all repurchase agreements and securities

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

On January 1, 2015, we early adopted new accounting guidance related to the accounting for share-based payment awards when the terms of an award provide that a performance target can be achieved after the requisite service period. The guidance requires that such performance targets should not be reflected in estimating the grant-date fair value of an award, and that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. We have a performance stock unit plan where awards for employees who are retirement eligible can vest on a pro-rata basis upon retirement even if retirement occurs before the performance target is achieved. There was no impact on our consolidated financial statements.

b) Accounting Pronouncement Not Yet Adopted

In May 2015, the Financial Accounting Standards Board (the FASB) issued new disclosure requirements for short-duration insurance contracts. The new guidance requires additional disclosures on short-duration policy and contract claims liabilities for incurred and paid claims development, unpaid claims and claims frequency. These new disclosures will be effective for us on December 31, 2016 with early adoption permitted and will only impact our disclosures.

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

In February 2015, the FASB issued new accounting guidance related to consolidation. This guidance primarily impacts limited partnerships and similar legal entities, evaluation of fees paid to a decision maker as a variable interest, the effect of fee arrangements and related parties on the primary beneficiary determination and certain investment funds. This guidance is effective for us on January 1, 2016, with early adoption permitted. We are in the process of determining the impact on our consolidated financial statements.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings (Loss) Per Share

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

(Amounts in millions, except per share amounts)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Weighted-average shares used in basic earnings per common share calculations	497.4	496.6	497.2	496.2
Potentially dilutive securities:				
Stock options, restricted stock units and stock appreciation rights	1.9	7.0	1.9	7.0
Weighted-average shares used in diluted earnings per common share calculations	499.3	503.6	499.1	503.2
Income from continuing operations:				
Income from continuing operations	$ 175	$ 224	$ 378	$ 434
Less: income from continuing operations attributable to noncontrolling interests	54	52	104	87
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	$ 121	$ 172	$ 274	$ 347
Basic per common share	$ 0.24	$ 0.35	$ 0.55	$ 0.70
Diluted per common share	$ 0.24	$ 0.34	$ 0.55	$ 0.69
Income (loss) from discontinued operations:				
Income (loss) from discontinued operations, net of taxes	$ (314)	$ 4	$ (313)	$ 13
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	$ (314)	$ 4	$ (313)	$ 13
Basic per common share	$ (0.63)	$ 0.01	$ (0.63)	$ 0.03

Diluted per common share	$ (0.63)	$ 0.01	$ (0.63)	$ 0.03
Net income (loss):				
Income from continuing operations	$ 175	$ 224	$ 378	$ 434
Income (loss) from discontinued operations, net of taxes	(314)	4	(313)	13
Net income (loss)	(139)	228	65	447
Less: net income attributable to noncontrolling interests	54	52	104	87
Net income (loss) available to Genworth Financial, Inc. s common stockholders	$ (193)	$ 176	$ (39)	$ 360
Basic per common share	$ (0.39)	$ 0.35	$ (0.08)	$ 0.73
Diluted per common share	$ (0.39)	$ 0.35	$ (0.08)	$ 0.72

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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:

(Amounts in millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Fixed maturity securities taxable	$ 645	$ 658	$ 1,277	$ 1,297
Fixed maturity securities non-taxable	3	3	6	6
Commercial mortgage loans	83	81	168	164
Restricted commercial mortgage loans related to securitization entities	3	4	7	8
Equity securities	4	4	8	8
Other invested assets	37	25	77	54
Restricted other invested assets related to securitization entities	1	1	2	2
Policy loans	35	32	68	63
Cash, cash equivalents and short-term investments	4	7	7	12
Gross investment income before expenses and fees	815	815	1,620	1,614
Expenses and fees	(22)	(24)	(46)	(47)
Net investment income	$ 793	$ 791	$ 1,574	$ 1,567

(b) Net Investment Gains (Losses)

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

(Amounts in millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Available-for-sale securities:				
Realized gains	$ 20	$ 38	$ 35	$ 44
Realized losses	(6)	(14)	(18)	(37)

Net realized gains (losses) on available-for-sale securities	14	24	17	7
Impairments:				
Total other-than-temporary impairments		(2)	(3)	(3)
Portion of other-than-temporary impairments included in other comprehensive income (loss)				
Net other-than-temporary impairments		(2)	(3)	(3)
Trading securities	(16)	8	(10)	20
Commercial mortgage loans	2	3	4	6
Net gains (losses) related to securitization entities	2	9	10	15
Derivative instruments [1]	6	(7)	(26)	(28)
Other		(1)		(1)
Net investment gains (losses)	$ 8	$ 34	$ (8)	$ 16

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended June 30, 2015 and 2014 was $144 million and $241 million, respectively, which was approximately 96% and 94%, respectively, of book value. The aggregate fair value of securities sold at a loss during the six months ended June 30, 2015 and 2014 was $284 million and $506 million, respectively, which was approximately 94% and 93%, respectively, of book value.

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

(Amounts in millions)	As of or for the three months ended June 30, 2015	As of or for the three months ended June 30, 2014	As of or for the six months ended June 30, 2015	As of or for the six months ended June 30, 2014
Beginning balance	$ 78	$ 99	$ 83	$ 101
Additions:				
Other-than-temporary impairments not previously recognized		1		1
Reductions:				
Securities sold, paid down or disposed	(3)	(5)	(8)	(7)
Ending balance	$ 75	$ 95	$ 75	$ 95

(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)	June 30, 2015	December 31, 2014
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 4,102	$ 5,560

Equity securities		12		32
Other invested assets		(1)		(2)
Subtotal		4,113		5,590
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves		(1,445)		(1,656)
Income taxes, net		(921)		(1,372)
Net unrealized investment gains (losses)		1,747		2,562
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		119		109
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	1,628	$	2,453

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	**As of or for the three months ended June 30, 2015**	**2014**
Beginning balance	$ 2,748	$ 1,624
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(2,406)	1,193
Adjustment to deferred acquisition costs	168	(96)
Adjustment to present value of future profits	70	(39)
Adjustment to sales inducements	18	(15)
Adjustment to benefit reserves	411	(200)
Provision for income taxes	608	(295)
Change in unrealized gains (losses) on investment securities	(1,131)	548
Reclassification adjustments to net investment (gains) losses, net of taxes of $5 and $8	(9)	(14)
Change in net unrealized investment gains (losses)	(1,140)	534
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	(20)	30
Ending balance	$ 1,628	$ 2,128

(Amounts in millions)	**As of or for the six months ended June 30, 2015**	**2014**
Beginning balance	$ 2,453	$ 926
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	(1,463)	2,624
Adjustment to deferred acquisition costs	70	(195)
Adjustment to present value of future profits	50	(91)
Adjustment to sales inducements	3	(28)

Adjustment to benefit reserves	88	(388)
Provision for income taxes	446	(673)
Change in unrealized gains (losses) on investment securities	(806)	1,249
Reclassification adjustments to net investment (gains) losses, net of taxes of $5 and $2	(9)	(3)
Change in net unrealized investment gains (losses)	(815)	1,246
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	10	44
Ending balance	$ 1,628	$ 2,128

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GENWORTH FINANCIAL, INC.

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(d) Fixed Maturity and Equity Securities

As of June 30, 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	$ 5,041	$ 729	$	$ (49)	$	$ 5,721
State and political subdivision	2,259	168		(38)		2,389
Non-U.S. government	1,841	132		(3)		1,970
U.S. corporate:						
Utilities	3,359	399		(24)		3,734
Energy	2,666	210		(26)		2,850
Finance and insurance	5,245	414	19	(42)		5,636
Consumer non-cyclical	3,623	385		(26)		3,982
Technology and communications	2,276	147		(23)		2,400
Industrial	1,222	79		(19)		1,282
Capital goods	1,843	206		(12)		2,037
Consumer cyclical	1,734	114		(14)		1,834
Transportation	940	88		(11)		1,017
Other	355	25		(1)		379
Total U.S. corporate	23,263	2,067	19	(198)		25,151
Non-U.S. corporate:						
Utilities	873	44		(4)		913
Energy	1,868	136		(30)		1,974
Finance and insurance	2,738	177	1	(6)		2,910
Consumer non-cyclical	782	32		(14)		800
Technology and communications	1,018	49		(10)		1,057
Industrial	1,171	49		(25)		1,195
Capital goods	629	27		(9)		647
Consumer cyclical	588	15		(1)		602

Transportation	561	61		(2)		620
Other	2,866	223		(10)		3,079
Total non-U.S. corporate	13,094	813	1	(111)		13,797
Residential mortgage-backed	4,759	333	12	(18)	(1)	5,085
Commercial mortgage-backed	2,473	118	4	(13)		2,582
Other asset-backed	3,887	24	1	(39)		3,873
Total fixed maturity securities	56,617	4,384	37	(469)	(1)	60,568
Equity securities	299	8		(8)		299
Total available-for-sale securities	$ 56,916	$ 4,392	$ 37	$ (477)	$ (1)	$ 60,867

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

		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	$ 5,006	$ 995	$	$ (1)	$	$ 6,000
State and political subdivision	2,013	236		(27)		2,222
Non-U.S. government	1,778	144		(2)		1,920
U.S. corporate:						
Utilities	3,292	577		(5)		3,864
Energy	2,498	265		(21)		2,742
Finance and insurance	5,109	537	20	(13)		5,653
Consumer non-cyclical	3,489	538		(8)		4,019
Technology and communications	2,112	217		(4)		2,325
Industrial	1,195	100		(8)		1,287
Capital goods	1,748	263		(5)		2,006
Consumer cyclical	1,750	158		(8)		1,900
Transportation	929	114		(4)		1,039
Other	370	31				401
Total U.S. corporate	22,492	2,800	20	(76)		25,236
Non-U.S. corporate:						
Utilities	867	48		(2)		913
Energy	1,925	163		(38)		2,050
Finance and insurance	2,812	203		(3)		3,012
Consumer non-cyclical	780	41		(9)		812
Technology and communications	999	71		(4)		1,066
Industrial	1,178	65		(18)		1,225
Capital goods	605	31		(5)		631
Consumer cyclical	535	14				549
Transportation	525	70		(1)		594
Other	3,169	257		(15)		3,411

Total non-U.S. corporate	13,395	963		(95)		14,263
Residential mortgage-backed	4,871	362	13	(17)	(1)	5,228
Commercial mortgage-backed	2,564	143	4	(9)		2,702
Other asset-backed	3,735	23	1	(54)		3,705
Total fixed maturity securities	55,854	5,666	38	(281)	(1)	61,276
Equity securities	250	32		(7)		275
Total available-for-sale securities	$ 56,104	$ 5,698	$ 38	$ (288)	$ (1)	$ 61,551

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GENWORTH FINANCIAL, INC.

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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 June 30, 2015:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses [1]**	**Number of securities**	**Fair value**	**Gross unrealized losses [1]**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 1,026	$ (49)	29	$	$		$ 1,026	$ (49)	29
State and political subdivision	554	(21)	103	160	(17)		714	(38)	103
Non-U.S. government	213	(3)	31			17	213	(3)	48
U.S. corporate	4,497	(170)	617	443	(28)	61	4,940	(198)	678
Non-U.S. corporate	2,181	(87)	308	260	(24)	39	2,441	(111)	347
Residential mortgage-backed	520	(9)	59	118	(10)	70	638	(19)	129
Commercial mortgage-backed	501	(11)	73	74	(2)	16	575	(13)	89
Other asset-backed	846	(3)	132	388	(36)	48	1,234	(39)	180
Subtotal, fixed maturity securities	10,338	(353)	1,352	1,443	(117)	251	11,781	(470)	1,603
Equity securities	176	(7)	63	21	(1)	3	197	(8)	66
Total for securities in an unrealized loss position	$ 10,514	$ (360)	1,415	$ 1,464	$ (118)	254	$ 11,978	$ (478)	1,669
% Below cost fixed maturity securities:									
<20% Below cost	$ 10,306	$ (343)	1,348	$ 1,343	$ (75)	232	$ 11,649	$ (418)	1,580
20%-50% Below cost	32	(10)	4	100	(41)	13	132	(51)	17
>50% Below cost					(1)	6		(1)	6
Total fixed maturity securities	10,338	(353)	1,352	1,443	(117)	251	11,781	(470)	1,603
% Below cost equity securities:									

<20% Below cost	176	(7)	63	21	(1)	3	197	(8)	66
Total equity securities	176	(7)	63	21	(1)	3	197	(8)	66
Total for securities in an unrealized loss position	$ 10,514	$ (360)	1,415	$ 1,464	$ (118)	254	$ 11,978	$ (478)	1,669
Investment grade	$ 9,888	$ (326)	1,294	$ 1,267	$ (92)	196	$ 11,155	$ (418)	1,490
Below investment grade [(2)]	626	(34)	121	197	(26)	58	823	(60)	179
Total for securities in an unrealized loss position	$ 10,514	$ (360)	1,415	$ 1,464	$ (118)	254	$ 11,978	$ (478)	1,669

[(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 June 30, 2015:

(Dollar amounts in millions)	Less than 12 months Fair value	Less than 12 months Gross unrealized losses	Less than 12 months Number of securities	12 months or more Fair value	12 months or more Gross unrealized losses	12 months or more Number of securities	Total Fair value	Total Gross unrealized losses	Total Number of securities
Description of Securities									
U.S. corporate:									
Utilities	$ 434	$ (23)	63	$ 18	$ (1)	5	$ 452	$ (24)	68
Energy	646	(20)	91	73	(6)	11	719	(26)	102
Finance and insurance	1,033	(34)	142	110	(8)	13	1,143	(42)	155
Consumer non-cyclical	590	(23)	76	82	(3)	11	672	(26)	87
Technology and communications	618	(23)	83				618	(23)	83
Industrial	298	(15)	43	48	(4)	8	346	(19)	51
Capital goods	306	(10)	42	26	(2)	4	332	(12)	46
Consumer cyclical	375	(11)	47	64	(3)	7	439	(14)	54
Transportation	159	(10)	25	22	(1)	2	181	(11)	27
Other	38	(1)	5				38	(1)	5
Subtotal, U.S. corporate securities	4,497	(170)	617	443	(28)	61	4,940	(198)	678
Non-U.S. corporate:									
Utilities	90	(2)	15	25	(2)	3	115	(4)	18
Energy	483	(28)	62	22	(2)	6	505	(30)	68
Finance and insurance	384	(5)	60	18	(1)	3	402	(6)	63
Consumer non-cyclical	219	(12)	22	33	(2)	3	252	(14)	25
Technology and communications	188	(7)	27	32	(3)	5	220	(10)	32
Industrial	303	(15)	37	104	(10)	14	407	(25)	51
Capital goods	140	(6)	24	11	(3)	2	151	(9)	26
Consumer cyclical	65	(1)	10				65	(1)	10
Transportation	115	(2)	15				115	(2)	15
Other	194	(9)	36	15	(1)	3	209	(10)	39
Subtotal, non-U.S. corporate securities	2,181	(87)	308	260	(24)	39	2,441	(111)	347

Total for corporate securities in an unrealized loss position	$ 6,678	$ (257)	925	$ 703	$ (52)	100	$ 7,381	$ (309)	1,025

As indicated in the tables above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to the increase in interest rates, mostly concentrated in our corporate securities. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 3% as of June 30, 2015.

GENWORTH FINANCIAL, INC.

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(Unaudited)

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

Of the $75 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 78% of the unrealized losses were related to investment grade securities as of June 30, 2015. These unrealized losses were predominantly attributable to corporate securities and municipal securities including fixed rate securities purchased in a lower rate environment and variable rate securities purchased in a higher rate and lower spread environment. The average fair value percentage below cost for these securities was approximately 5% as of June 30, 2015. See below for additional discussion related to fixed maturity securities that have been in a continuous unrealized loss position for 12 months or more with a fair value that was more than 20% below cost.

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous unrealized loss position for 12 months or more by asset class as of June 30, 2015:

	Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**% of total gross unrealized losses**	**Number of securities**
Fixed maturity securities:								
State and political subdivision	$ 8	$ (4)	1%	1	$	$	%	
Non-U.S. corporate:								
Industrial	4	(2)	1	1				
Capital goods	7	(2)		1				
Total non-U.S. corporate	11	(4)	1	2				
Structured securities:								
Other asset-backed	68	(25)	5	4				
Total structured securities	68	(25)	5	4				
Total	$ 87	$ (33)	7%	7	$	$	%	

	Below Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
Non-U.S. corporate capital goods	$ 4	$ (1)	%	1	$	$	%	
Structured securities:								
Residential mortgage-backed	1	(1)		4		(1)		6
Other asset-backed	8	(6)	1	1				
Total structured securities	9	(7)	1	5		(1)		6
Total	$ 13	$ (8)	1%	6	$	$ (1)	%	6

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

Structured Securities

Of the $33 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, $1 million related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

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

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

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of June 30, 2015.

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

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

	Less than 12 months			**12 months or more**			**Total**		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses** [1]	**Number of securities**	**Fair value**	**Gross unrealized losses** [1]	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$	$		$ 75	$ (1)	10	$ 75	$ (1)	10
State and political subdivision	9		7	267	(27)	45	276	(27)	52
Non-U.S. government	64	(1)	15	22	(1)	4	86	(2)	19
U.S. corporate	1,646	(33)	233	1,201	(43)	174	2,847	(76)	407
Non-U.S. corporate	1,529	(67)	230	504	(28)	67	2,033	(95)	297
Residential mortgage-backed	180	(1)	24	249	(17)	87	429	(18)	111
Commercial mortgage-backed	163		21	362	(9)	49	525	(9)	70
Other asset-backed	1,551	(12)	215	487	(42)	55	2,038	(54)	270
Subtotal, fixed maturity securities	5,142	(114)	745	3,167	(168)	491	8,309	(282)	1,236
Equity securities	30	(3)	46	48	(4)	6	78	(7)	52
Total for securities in an unrealized loss position	$ 5,172	$ (117)	791	$ 3,215	$ (172)	497	$ 8,387	$ (289)	1,288
% Below cost fixed maturity securities:									
<20% Below cost	$ 5,105	$ (103)	741	$ 3,036	$ (114)	470	$ 8,141	$ (217)	1,211
20%-50% Below cost	37	(11)	4	131	(53)	15	168	(64)	19
>50% Below cost					(1)	6		(1)	6

Total fixed maturity securities	5,142	(114)	745	3,167	(168)	491	8,309	(282)	1,236
% Below cost equity securities:									
<20% Below cost	26	(2)	40	48	(4)	6	74	(6)	46
20%-50% Below cost	4	(1)	6				4	(1)	6
Total equity securities	30	(3)	46	48	(4)	6	78	(7)	52
Total for securities in an unrealized loss position	$ 5,172	$ (117)	791	$ 3,215	$ (172)	497	$ 8,387	$ (289)	1,288
Investment grade	$ 4,581	$ (75)	664	$ 2,918	$ (145)	424	$ 7,499	$ (220)	1,088
Below investment grade [2]	591	(42)	127	297	(27)	73	888	(69)	200
Total for securities in an unrealized loss position	$ 5,172	$ (117)	791	$ 3,215	$ (172)	497	$ 8,387	$ (289)	1,288

(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.

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(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, 2014:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
Description of Securities									
U.S. corporate:									
Utilities	$ 55	$	10	$ 164	$ (5)	23	$ 219	$ (5)	33
Energy	404	(16)	56	96	(5)	15	500	(21)	71
Finance and insurance	401	(3)	57	257	(10)	35	658	(13)	92
Consumer non-cyclical	165	(3)	21	182	(5)	32	347	(8)	53
Technology and communications	181	(3)	27	97	(1)	15	278	(4)	42
Industrial	151	(4)	21	80	(4)	11	231	(8)	32
Capital goods	85		13	122	(5)	18	207	(5)	31
Consumer cyclical	132	(2)	17	139	(6)	18	271	(8)	35
Transportation	52	(2)	9	57	(2)	6	109	(4)	15
Other	20		2	7		1	27		3
Subtotal, U.S. corporate securities	1,646	(33)	233	1,201	(43)	174	2,847	(76)	407
Non-U.S. corporate:									
Utilities	80		14	43	(2)	5	123	(2)	19
Energy	449	(33)	60	58	(5)	13	507	(38)	73
Finance and insurance	261	(2)	41	29	(1)	6	290	(3)	47
Consumer non-cyclical	142	(6)	13	83	(3)	9	225	(9)	22
Technology and communications	88	(2)	18	81	(2)	8	169	(4)	26
Industrial	218	(9)	31	116	(9)	15	334	(18)	46
Capital goods	68	(2)	10	38	(3)	4	106	(5)	14
Consumer cyclical	10		3				10		3
Transportation	34		7	14	(1)	1	48	(1)	8
Other	179	(13)	33	42	(2)	6	221	(15)	39
Subtotal, non-U.S. corporate securities	1,529	(67)	230	504	(28)	67	2,033	(95)	297

Total for corporate securities in an unrealized loss position	$ 3,175	$ (100)	463	$ 1,705	$ (71)	241	$ 4,880	$ (171)	704

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The scheduled maturity distribution of fixed maturity securities as of June 30, 2015 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 2,050	$ 2,069
Due after one year through five years	10,541	11,069
Due after five years through ten years	11,771	12,212
Due after ten years	21,136	23,678
Subtotal	45,498	49,028
Residential mortgage-backed	4,759	5,085
Commercial mortgage-backed	2,473	2,582
Other asset-backed	3,887	3,873
Total	$ 56,617	$ 60,568

As of June 30, 2015, $7,376 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of June 30, 2015, securities issued by finance and insurance, energy, utilities and consumer non-cyclical industry groups represented approximately 22%, 13%, 12% and 12%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio. This portfolio is widely diversified among various geographic regions in the United States and internationally, and is not dependent on the economic stability of one particular region.

As of June 30, 2015, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

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(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:

	June 30, 2015		December 31, 2014	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 2,154	35%	$ 2,150	35%
Office	1,726	28	1,643	27
Industrial	1,578	25	1,597	26
Apartments	471	8	494	8
Mixed use/other	265	4	239	4
Subtotal	6,194	100%	6,123	100%
Unamortized balance of loan origination fees and costs	(1)		(1)	
Allowance for losses	(18)		(22)	
Total	$ 6,175		$ 6,100	

	June 30, 2015		December 31, 2014	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,609	26%	$ 1,673	27%
Pacific	1,608	26	1,636	27
Middle Atlantic	878	14	826	14
Mountain	574	9	536	9
West North Central	403	7	382	6

East North Central	399	6	397	7
West South Central	289	5	268	4
New England	272	4	264	4
East South Central	162	3	141	2
Subtotal	6,194	100%	6,123	100%
Unamortized balance of loan origination fees and costs	(1)		(1)	
Allowance for losses	(18)		(22)	
Total	$ 6,175		$ 6,100	

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

	June 30, 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	$ 1	$	$	$ 1	$ 2,153	$ 2,154
Office	6		3	9	1,717	1,726
Industrial					1,578	1,578
Apartments					471	471
Mixed use/other					265	265
Total recorded investment	$ 7	$	$ 3	$ 10	$ 6,184	$ 6,194
% of total commercial mortgage loans	%	%	%	%	100%	100%

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

As of June 30, 2015 and December 31, 2014, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of June 30, 2015 and December 31, 2014.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of June 30, 2015, our commercial mortgage loans greater than 90 days past due included loans with appraised values in excess of the recorded investment and the current recorded investment of these loans was expected to be recoverable.

During the six months ended June 30, 2015 and the year ended December 31, 2014, we modified or extended 7 and 28 commercial mortgage loans, respectively, with a total carrying value of $73 million and $254 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower and were not considered troubled debt restructurings.

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

(Amounts in millions)	**Three months ended June 30, 2015**	**Three months ended June 30, 2014**	**Six months ended June 30, 2015**	**Six months ended June 30, 2014**
Allowance for credit losses:				
Beginning balance	$ 20	$ 30	$ 22	$ 33
Charge-offs			(3)	(1)
Recoveries				
Provision	(2)	(3)	(1)	(5)
Ending balance	$ 18	$ 27	$ 18	$ 27
Ending allowance for individually impaired loans	$	$	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 18	$ 27	$ 18	$ 27
Recorded investment:				
Ending balance	$ 6,194	$ 6,013	$ 6,194	$ 6,013
Ending balance of individually impaired loans	$ 18	$ 17	$ 18	$ 17
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,176	$ 5,996	$ 6,176	$ 5,996

As of June 30, 2015, we had an individually impaired commercial mortgage loan included within the office property type with a recorded investment of $3 million, an unpaid principal balance of $6 million and charge-offs of $3 million. As of June 30, 2015 and December 31, 2014, we had an individually impaired commercial mortgage loan included within the industrial property type with a recorded investment of $15 million, an unpaid principal balance of $16 million and charge-offs of $1 million, which were recorded in the first quarter of 2014.

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

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

	June 30, 2015					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100% [(1)]**	**Total**
Property type:						
Retail	$ 713	$ 415	$ 942	$ 66	$ 18	$ 2,154
Office	451	302	848	99	26	1,726
Industrial	402	295	803	76	2	1,578
Apartments	188	78	197	8		471
Mixed use/other	55	38	166	6		265
Total recorded investment	$ 1,809	$ 1,128	$ 2,956	$ 255	$ 46	$ 6,194
% of total	29%	18%	48%	4%	1%	100%
Weighted-average debt service coverage ratio	2.13	1.77	1.62	0.91	0.79	1.76

(1) Included $46 million of loans in good standing, where borrowers continued to make timely payments, with a total weighted-average loan-to-value of 122%.

	December 31, 2014					
(Amounts in millions)	**0% - 50%**	**51% - 60%**	**61% - 75%**	**76% - 100%**	**Greater than 100% [(1)]**	**Total**
Property type:						
Retail	$ 671	$ 419	$ 967	$ 75	$ 18	$ 2,150
Office	383	278	782	164	36	1,643
Industrial	451	285	778	60	23	1,597
Apartments	211	76	199	8		494
Mixed use/other	45	43	145	6		239
Total recorded investment	$ 1,761	$ 1,101	$ 2,871	$ 313	$ 77	$ 6,123

% of total	29%	18%	47%	5%	1%	100%
Weighted-average debt service coverage ratio	2.27	1.75	1.61	1.02	0.72	1.78

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

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

	June 30, 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	$ 71	$ 237	$ 551	$ 890	$ 405	$ 2,154
Office	105	88	299	849	378	1,719
Industrial	155	137	229	704	353	1,578
Apartments	1	44	85	195	146	471
Mixed use/other	6	1	85	137	36	265
Total recorded investment	$ 338	$ 507	$ 1,249	$ 2,775	$ 1,318	$ 6,187
% of total	5%	8%	20%	45%	22%	100%
Weighted-average loan-to-value	73%	63%	60%	60%	45%	58%

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

As of June 30, 2015 and December 31, 2014, we had floating rate commercial mortgage loans of $7 million and $9 million, respectively.

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(g) Restricted Other Invested Assets Related To Securitization Entities

We have consolidated securitization entities that hold certain investments that are recorded as restricted other invested assets related to securitization entities. The consolidated securitization entities hold certain investments as trading securities and 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.

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(5) Derivative Instruments

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

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

	Derivative assets			Derivative liabilities		
		Fair value			Fair value	
(Amounts in millions)	Balance sheet classification	June 30, 2015	December 31, 2014	Balance sheet classification	June 30, 2015	December 31, 2014
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 423	$ 639	Other liabilities	$ 20	$ 27
Inflation indexed swaps	Other invested assets			Other liabilities	46	42
Foreign currency swaps	Other invested assets	8	6	Other liabilities		
Total cash flow hedges		431	645		66	69
Total derivatives designated as hedges		431	645		66	69
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	396	452	Other liabilities	141	177
Interest rate swaps related to securitization entities	Restricted other invested assets			Other liabilities	26	26
Foreign currency swaps	Other invested assets			Other liabilities	14	7
Credit default swaps	Other invested assets	2	4	Other liabilities		

Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	8	17
Equity index options	Other invested assets	12	17	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets	4		Other liabilities		1
Other foreign currency contracts	Other invested assets	14	14	Other liabilities	20	13
GMWB embedded derivatives	Reinsurance recoverable [1]	10	13	Policyholder account balances [2]	255	291
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances [3]	322	276
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances [4]	9	7
Total derivatives not designated as hedges		438	500		795	815
Total derivatives		$ 869	$ 1,145		$ 861	$ 884

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

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

[3] Represents the embedded derivatives associated with our fixed index annuity liabilities.

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

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

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

(Notional in millions)	Measurement	December 31, 2014	Additions	Maturities/ terminations	June 30, 2015
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 11,961	$	$ (24)	$ 11,937
Inflation indexed swaps	Notional	571	7	(10)	568
Foreign currency swaps	Notional	35			35
Total cash flow hedges		12,567	7	(34)	12,540
Total derivatives designated as hedges		12,567	7	(34)	12,540
Derivatives not designated as hedges					
Interest rate swaps	Notional	5,074	500	(642)	4,932
Interest rate swaps related to securitization entities	Notional	77		(6)	71
Credit default swaps	Notional	394		(250)	144
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	994	324	(308)	1,010
Financial futures	Notional	1,331	2,788	(2,876)	1,243
Equity return swaps	Notional	108	166	(133)	141
Foreign currency swaps	Notional	104	14		118
Other foreign currency contracts	Notional	425	685	(645)	465
Total derivatives not designated as hedges		8,819	4,477	(4,860)	8,436
Total derivatives		$ 21,386	$ 4,484	$ (4,894)	$ 20,976

(Number of policies)	Measurement	December 31, 2014	Additions	Maturities/ terminations	June 30, 2015
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	39,015		(1,531)	37,484
Fixed index annuity embedded derivatives	Policies	13,901	2,066	(199)	15,768
Indexed universal life embedded derivatives	Policies	421	296	(8)	709

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Cash Flow Hedges

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

The following table provides information about the pre-tax income (loss) effects of cash flow hedges for the three months ended June 30, 2015:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (515)	$ 20	Net investment income	$ (7)	Net investment gains (losses)
Interest rate swaps hedging liabilities	27		Interest expense		Net investment gains (losses)
Inflation indexed swaps	(14)	(6)	Net investment income		Net investment gains (losses)
Foreign currency swaps	(1)		Net investment income		Net investment gains (losses)
Total	$ (503)	$ 14		$ (7)	

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

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

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 215	$ 13	Net investment income	$ 3	Net investment gains (losses)
Interest rate swaps hedging liabilities	(14)	1	Interest expense		Net investment gains (losses)
Inflation indexed swaps	(27)	(7)	Net investment income		Net investment gains (losses)
Forward bond purchase commitments	10		Net investment income		Net investment gains (losses)
Total	$ 184	$ 7		$ 3	

(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 information about the pre-tax income (loss) effects of cash flow hedges for the six months ended June 30, 2015:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ (209)	$ 39	Net investment income	$ (3)	Net investment gains (losses)
Interest rate swaps hedging liabilities	9		Interest expense		Net investment gains (losses)
Inflation indexed swaps	(3)	3	Net investment income		Net investment gains (losses)
Foreign currency swaps	2		Net investment income		Net investment gains (losses)
Total	$ (201)	$ 42		$ (3)	

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

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

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income (loss) from OCI	Classification of gain (loss) reclassified into net income (loss)	Gain (loss) recognized in net income (loss) [1]	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps hedging assets	$ 572	$ 28	Net investment income	$ 7	Net investment gains (losses)
	(34)	1	Interest expense		

Interest rate swaps hedging liabilities					Net investment gains (losses)
Inflation indexed swaps	(30)	(8)	Net investment income		Net investment gains (losses)
Forward bond purchase commitments	28		Net investment income		Net investment gains (losses)
Total	$ 536	$ 21		$ 7	

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

	Three months ended June 30,	
(Amounts in millions)	**2015**	**2014**
Derivatives qualifying as effective accounting hedges as of April 1	$ 2,247	$ 1,538
Current period increases (decreases) in fair value, net of deferred taxes of $178 and $(65)	(325)	119
Reclassification to net (income) loss, net of deferred taxes of $5 and $2	(9)	(5)
Derivatives qualifying as effective accounting hedges as of June 30	$ 1,913	$ 1,652

	Six months ended June 30,	
(Amounts in millions)	**2015**	**2014**
Derivatives qualifying as effective accounting hedges as of January 1	$ 2,070	$ 1,319
Current period increases (decreases) in fair value, net of deferred taxes of $71 and $(189)	(130)	347
Reclassification to net (income) loss, net of deferred taxes of $15 and $7	(27)	(14)
Derivatives qualifying as effective accounting hedges as of June 30	$ 1,913	$ 1,652

The total of derivatives designated as cash flow hedges of $1,913 million, net of taxes, recorded in stockholders equity as of June 30, 2015 is expected to be reclassified to net income (loss) in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $65 million, net of taxes, is expected to be reclassified to net income (loss) in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2047. There were immaterial amounts reclassified to net income (loss) during the six months ended June 30, 2015 in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

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

There were no pre-tax income (loss) effects of fair value hedges and related hedged items for the three and six months ended June 30, 2015 and 2014.

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Derivatives Not Designated As Hedges

We also enter into certain non-qualifying derivative instruments such as: (i) interest rate swaps and financial futures to mitigate interest rate risk as part of managing regulatory capital positions; (ii) credit default swaps to enhance yield and reproduce characteristics of investments with similar terms and credit risk; (iii) equity index options, equity return swaps, interest rate swaps and financial futures to mitigate the risks associated with liabilities that have guaranteed minimum benefits, fixed index annuities and indexed universal life; (iv) interest rate swaps where the hedging relationship does not qualify for hedge accounting; (v) credit default swaps to mitigate loss exposure to certain credit risk; (vi) foreign currency swaps, options and forward contracts to mitigate currency risk associated with non-functional currency investments held by certain foreign subsidiaries and future dividends or other cash flows from certain foreign subsidiaries to our holding company; and (vii) equity index options to mitigate certain macroeconomic risks associated with certain foreign subsidiaries. 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 (loss) for the effects of derivatives not designated as hedges for the periods indicated:

	Three months ended June 30,		Classification of gain (loss) recognized
(Amounts in millions)	**2015**	**2014**	**in net income (loss)**
Interest rate swaps	$ (9)	$ (2)	Net investment gains (losses)
Interest rate swaps related to securitization entities	3	(3)	Net investment gains (losses)
Credit default swaps related to securitization entities	3	11	Net investment gains (losses)
Equity index options	(7)	(11)	Net investment gains (losses)
Financial futures	(38)	17	Net investment gains (losses)

Equity return swaps	1	(4)	Net investment gains (losses)
Other foreign currency contracts	7	(2)	Net investment gains (losses)
Foreign currency swaps	2	1	Net investment gains (losses)
GMWB embedded derivatives	65	2	Net investment gains (losses)
Fixed index annuity embedded derivatives	(10)	(11)	Net investment gains (losses)
Indexed universal life embedded derivatives	2		Net investment gains (losses)
Total derivatives not designated as hedges	$ 19	$ (2)	

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(Amounts in millions)	Six months ended June 30, 2015	Six months ended June 30, 2014	Classification of gain (loss) recognized in net income (loss)
Interest rate swaps	$ (1)	$ (5)	Net investment gains (losses)
Interest rate swaps related to securitization entities		(6)	Net investment gains (losses)
Credit default swaps	1		Net investment gains (losses)
Credit default swaps related to securitization entities	11	18	Net investment gains (losses)
Equity index options	(17)	(18)	Net investment gains (losses)
Financial futures	(31)	44	Net investment gains (losses)
Equity return swaps	(8)	(5)	Net investment gains (losses)
Other foreign currency contracts	6	(11)	Net investment gains (losses)
Foreign currency swaps	(8)	1	Net investment gains (losses)
GMWB embedded derivatives	49	(29)	Net investment gains (losses)
Fixed index annuity embedded derivatives	(17)	(12)	Net investment gains (losses)
Indexed universal life embedded derivatives	3		Net investment gains (losses)
Total derivatives not designated as hedges	$ (12)	$ (23)	

Derivative Counterparty Credit Risk

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

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

	June 30, 2015			December 31, 2014		
(Amounts in millions)	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives	Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives
Amounts presented in the balance sheet:						
Gross amounts recognized	$ 882	$ 246	$ 636	$ 1,157	$ 273	$ 884

Gross amounts offset in the balance sheet						
Net amounts presented in the balance sheet	882	246	636	1,157	273	884
Gross amounts not offset in the balance sheet:						
Financial instruments [3]	(201)	(201)		(227)	(227)	
Collateral received	(554)		(554)	(884)		(884)
Collateral pledged		(388)	388		(49)	49
Over collateralization	2	343	(341)	1	5	(4)
Net amount	$ 129	$	$ 129	$ 47	$ 2	$ 45

(1) Included $23 million and $25 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of June 30, 2015 and December 31, 2014, respectively.

(2) Included $5 million and $6 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities as of June 30, 2015 and December 31, 2014, respectively.

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

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Except for derivatives related to securitization entities, almost all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. If the downgrade provisions had been triggered as of June 30, 2015 and December 31, 2014, we could have been allowed to claim $129 million and $47 million, respectively, or required to disburse up to $2 million as of December 31, 2014. The chart above excludes embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

Credit Derivatives

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

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:

	June 30, 2015			December 31, 2014		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Investment grade						
Matures in less than one year	$	$	$	$	$	$
Matures after one year through five years	39	1		39	1	

Total credit default swaps on single name reference entities	$ 39	$ 1	$	$ 39	$ 1	$

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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:

	June 30, 2015			December 31, 2014		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Original index tranche attachment/detachment point and maturity:						
7% - 15% matures after one year through five years [1]	$ 100	$ 1	$	$ 100	$ 1	$
9% - 12% matures in less than one year [2]				250	2	
Total credit default swap index tranches	100	1		350	3	
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 [3]	12			12		
Portion backing our interest maturing 2017 [4]	300		8	300		17
Total customized credit default swap index tranches related to securitization entities	312		8	312		17
Total credit default swaps on index tranches	$ 412	$ 1	$ 8	$ 662	$ 3	$ 17

(1) The current attachment/detachment as of June 30, 2015 and December 31, 2014 was 7% - 15%.
(2) The current attachment/detachment as of December 31, 2014 was 9% - 12%.
(3) Original notional value was $39 million.
(4) Original notional value was $300 million.

(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.

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

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

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

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

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

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

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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:

	June 30, 2015					
	Notional	Carrying	Fair value			
(Amounts in millions)	**amount**	**amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,175	$ 6,511	$	$	$ 6,511
Restricted commercial mortgage loans	(1)	181	203			203
Other invested assets	(1)	434	435		359	76
Liabilities:						
Long-term borrowings	(1)	4,607	4,426		4,315	111
Non-recourse funding obligations	(1)	1,967	1,423			1,423
Borrowings related to securitization entities	(1)	115	125		125	
Investment contracts	(1)	17,297	18,044		7	18,037
Other firm commitments:						
Commitments to fund limited partnerships	80					
Ordinary course of business lending commitments	198					

	December 31, 2014					
	Notional	Carrying	Fair value			
(Amounts in millions)	**amount**	**amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,100	$ 6,573	$	$	$ 6,573
Restricted commercial mortgage loans	(1)	201	228			228
Other invested assets	(1)	348	359		274	85
Liabilities:						
Long-term borrowings	(1)	4,639	4,300		4,181	119
Non-recourse funding obligations	(1)	1,996	1,438			1,438
Borrowings related to securitization entities	(1)	134	146		146	
Investment contracts	(1)	17,486	18,012		7	18,005
Other firm commitments:						
Commitments to fund limited partnerships	53					
Ordinary course of business lending commitments	155					

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

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.

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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 also evaluate changes in fair value that are greater than 10% each month to further aid in our review of the accuracy of fair value measurements and our understanding of changes in fair value, with more detailed reviews performed by the asset managers responsible for the related asset class associated with the security being reviewed. A pricing committee provides additional oversight and guidance in the evaluation and review of the pricing methodologies used to value our investment portfolio.

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

For pricing services, we obtain an understanding of the pricing methodologies and procedures for each type of instrument. Additionally, on a monthly basis we review a sample of securities, examining the pricing service s assumptions to determine if we agree with the service s derived price. In general, a pricing service does not provide a price for a security if sufficient information is not readily available to determine fair value or if such security is not in the specific sector or class covered by a particular pricing service. Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are

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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. 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 maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

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

Level 1 measurements

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

Level 2 measurements

Fixed maturity securities

U.S. government, agencies and government-sponsored enterprises, state and political subdivision, non-U.S. government, and all sectors of U.S. corporate and non-U.S. corporate. The primary inputs to the

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valuation 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. Private fixed maturity securities valued using an internal model use market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer.

Residential mortgage-backed, commercial mortgage-backed and other asset-backed. 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 and 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.

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

U.S. government, agencies and government-sponsored enterprises, state and political subdivision, non-U.S. government, and all sectors of U.S. corporate and non-U.S. corporate. The primary inputs to the valuation 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 securities are valued using broker quotes where the underlying inputs are unobservable. Certain private fixed maturity securities valued using an internal model uses 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 also apply certain price caps in the valuation of private fixed maturity securities as a result of our valuation being higher than what we would receive in a market transaction where the price cap represents an unobservable input.

Residential mortgage-backed, commercial mortgage-backed and other asset-backed. The primary inputs to the valuation include broker quotes or use internal models where the primary inputs to the valuation are similar to the inputs used for Level 2 measurements but where the inputs cannot be corroborated with market data of similar securities.

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 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.

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

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

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

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

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

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

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

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

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

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

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

Other foreign currency contracts. We have certain foreign currency options classified as other foreign currency contracts. The valuation of foreign currency options is determined using an income approach. The primary inputs into the valuation represent the forward interest rate swap curve, foreign currency exchange rates,

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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 June 30, 2015 and December 31, 2014, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $65 million and $74 million, respectively.

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

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

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

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

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

Fixed index annuity embedded derivatives

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

Indexed universal life embedded derivatives

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

Borrowings related to securitization entities

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

	June 30, 2015			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 5,721	$	$ 5,718	$ 3
State and political subdivision	2,389		2,349	40
Non-U.S. government	1,970		1,965	5
U.S. corporate:				
Utilities	3,734		3,286	448
Energy	2,850		2,581	269
Finance and insurance	5,636		5,007	629
Consumer non-cyclical	3,982		3,874	108
Technology and communications	2,400		2,367	33
Industrial	1,282		1,246	36
Capital goods	2,037		1,872	165
Consumer cyclical	1,834		1,538	296
Transportation	1,017		896	121
Other	379		213	166
Total U.S. corporate	25,151		22,880	2,271
Non-U.S. corporate:				
Utilities	913		587	326
Energy	1,974		1,669	305
Finance and insurance	2,910		2,692	218
Consumer non-cyclical	800		631	169
Technology and communications	1,057		1,015	42
Industrial	1,195		1,070	125
Capital goods	647		410	237
Consumer cyclical	602		529	73
Transportation	620		466	154
Other	3,079		3,004	75
Total non-U.S. corporate	13,797		12,073	1,724

Residential mortgage-backed	5,085		4,953	132
Commercial mortgage-backed	2,582		2,557	25
Other asset-backed	3,873		2,513	1,360
Total fixed maturity securities	60,568		55,008	5,560
Equity securities	299	255	3	41
Other invested assets:				
Trading securities	368		368	
Derivative assets:				
Interest rate swaps	819		819	
Foreign currency swaps	8		8	
Credit default swaps	2		1	1
Equity index options	12			12
Equity return swaps	4		4	
Other foreign currency contracts	14		14	
Total derivative assets	859		846	13
Securities lending collateral	337		337	
Total other invested assets	1,564		1,551	13
Restricted other invested assets related to securitization entities	410		180	230
Reinsurance recoverable [1]	10			10
Separate account assets	8,702	8,702		
Total assets	$ 71,553	$ 8,957	$ 56,742	$ 5,854

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

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	December 31, 2014			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 6,000	$	$ 5,996	$ 4
State and political subdivision	2,222		2,192	30
Non-U.S. government	1,920		1,913	7
U.S. corporate:				
Utilities	3,864		3,420	444
Energy	2,742		2,457	285
Finance and insurance	5,653		5,037	616
Consumer non-cyclical	4,019		3,879	140
Technology and communications	2,325		2,280	45
Industrial	1,287		1,251	36
Capital goods	2,006		1,840	166
Consumer cyclical	1,900		1,537	363
Transportation	1,039		886	153
Other	401		230	171
Total U.S. corporate	25,236		22,817	2,419
Non-U.S. corporate:				
Utilities	913		585	328
Energy	2,050		1,726	324
Finance and insurance	3,012		2,791	221
Consumer non-cyclical	812		615	197
Technology and communications	1,066		1,024	42
Industrial	1,225		1,094	131
Capital goods	631		394	237
Consumer cyclical	549		460	89
Transportation	594		440	154
Other	3,411		3,330	81
Total non-U.S. corporate	14,263		12,459	1,804
Residential mortgage-backed	5,228		5,163	65
Commercial mortgage-backed	2,702		2,697	5
Other asset-backed	3,705		2,285	1,420

Total fixed maturity securities	61,276		55,522	5,754
Equity securities	275	237	4	34
Other invested assets:				
Trading securities	241		241	
Derivative assets:				
Interest rate swaps	1,091		1,091	
Foreign currency swaps	6		6	
Credit default swaps	4		1	3
Equity index options	17			17
Other foreign currency contracts	14		14	
Total derivative assets	1,132		1,112	20
Securities lending collateral	289		289	
Total other invested assets	1,662		1,642	20
Restricted other invested assets related to securitization entities	411		181	230
Reinsurance recoverable [(1)]	13			13
Separate account assets	9,208	9,208		
Total assets	$ 72,845	$ 9,445	$ 57,349	$ 6,051

[(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:

(Amounts in millions)	Beginning balance as of April 1, 2015	Total realized and unrealized gains (losses) Included in net income (loss)	Total realized and unrealized gains (losses) Included in OCI	Purchases	Sales	Issuances	Settlements	Transfer into Level 3 [1]	Transfer out of Level 3 [1]	Ending balance as of June 30, 2015	Total gains (losses) included in net income (loss) attributable to assets still held
Fixed maturity securities:											
U.S. government, agencies and government-sponsored enterprises	$ 3	$	$	$	$	$	$	$	$	$ 3	$
State and political subdivision	30		10							40	
Non-U.S. government	6		(1)							5	
U.S. corporate:											
Utilities	462		(16)					2		448	
Energy	280		(7)	4	(4)		(4)			269	
Finance and insurance	637	3	(37)	8			(7)	47	(22)	629	3
Consumer non-cyclical	117	1	(3)				(7)			108	
Technology and communications	47	1	(5)						(10)	33	1
Industrial	37		(1)							36	
Capital goods	167		(2)	1	(1)					165	
Consumer cyclical	367		(6)	9			(7)		(67)	296	
Transportation	161		(4)				(27)		(9)	121	
Other	173		(4)				(3)			166	
Total U.S. corporate	2,448	5	(85)	22	(5)		(55)	49	(108)	2,271	4
Non-U.S. corporate:											

Utilities	332		(6)							326	
Energy	307		5				(7)			305	
Finance and insurance	226	1	(10)	6			(1)		(4)	218	1
Consumer non-cyclical	172		(3)							169	
Technology and communications	43								(1)	42	
Industrial	127		(2)							125	
Capital goods	242		(5)							237	
Consumer cyclical	90		(1)						(16)	73	
Transportation	157		(3)							154	
Other	83		4				(11)		(1)	75	
Total non-U.S. corporate	1,779	1	(21)	6			(19)		(22)	1,724	1
Residential mortgage-backed	61		2	31			(3)	41		132	
Commercial mortgage-backed	4			9			(1)	13		25	
Other asset-backed	1,456	3	3	57	(8)		(173)	31	(9)	1,360	
Total fixed maturity securities	5,787	9	(92)	125	(13)		(251)	134	(139)	5,560	5
Equity securities	34							7		41	
Other invested assets:											
Derivative assets:											
Credit default swaps	2						(1)			1	
Equity index options	15	(7)		4						12	(5)
Total derivative assets	17	(7)		4			(1)			13	(5)
Total other invested assets	17	(7)		4			(1)			13	(5)
Restricted other invested assets related to securitization entities	230									230	
Reinsurance recoverable [2]	14	(5)				1				10	(5)
Total Level 3 assets	$ 6,082	$ (3)	$ (92)	$ 129	$ (13)	$ 1	$ (252)	$ 141	$ (139)	$ 5,854	$ (5)