

GENWORTH FINANCIAL INC
Form 10-K
February 28, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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)

33-1073076
(I.R.S. Employer
Identification No.)

6620 West Broad Street
Richmond, Virginia 23230
(804) 281-6000

(Address and Telephone Number of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of Each Exchange On Which Registered
Class A Common Stock, par value \$.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

5.25% Series A Cumulative Preferred Stock, Liquidation Preference \$50 per share

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of February 15, 2008, 432,642,833 shares of Class A Common Stock, par value \$0.001 per share were outstanding.

The aggregate market value of the common equity (based on the closing price of the Class A Common Stock on The New York Stock Exchange) held by non-affiliates of the registrant on June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$15.2 billion. All 10% and greater stockholders, executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-K

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2008 annual meeting of the registrant's stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents**Table of Contents**

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	51
Item 1B. <u>Unresolved Staff Comments</u>	72
Item 2. <u>Properties</u>	72
Item 3. <u>Legal Proceedings</u>	73
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	74
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	75
Item 6. <u>Selected Financial Data</u>	78
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	81
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	157
Item 8. <u>Financial Statements and Supplementary Data</u>	160
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	233
Item 9A. <u>Controls and Procedures</u>	233
Item 9B. <u>Other Information</u>	235
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	236
Item 11. <u>Executive Compensation</u>	241
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	242
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	242
Item 14. <u>Principal Accountant Fees and Services</u>	242
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	243

Table of Contents

Cautionary Note Regarding Forward-looking Statements

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual outcomes and results may differ materially due to global political, economic, business, competitive, market, regulatory and other factors, including the items identified under Item 1A Risk Factors.

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

Table of Contents

PART I

In this Annual Report on Form 10-K, unless the context otherwise requires, Genworth, we, us, and our refer to Genworth Financial, Inc. and its subsidiaries.

Item 1. Business Overview

Genworth Financial, Inc. is a leading financial security company dedicated to providing insurance, investment and financial solutions that help meet the homeownership, life security, wealth management and retirement security needs of more than 15 million customers, with a presence in more than 25 countries. We are a leading provider of key products and related services whose growth we believe is benefiting from significant demographic, legislative and market trends that are increasingly shifting responsibility for building financial security to the individual. We distribute our products and services through extensive and diversified channels that include: financial intermediaries, advisors, independent distributors, affinity groups and dedicated sales specialists. We are headquartered in Richmond, Virginia and had approximately 7,000 employees as of December 31, 2007.

We enable homeownership in the U.S. and internationally, helping people purchase homes with low down payments, coupled with the use of mortgage insurance that protects lenders against the risk of default. Through our homeownership education programs, we also help people keep their homes when they experience financial difficulties. We help individuals accumulate and build wealth for financial security in the U.S. Our wealth management products include financial planning services and managed accounts. Life security offerings include our payment protection coverages in Europe, Canada and Mexico; and in the U.S., term and universal life insurance, as well as care coordination and wellness services. We help people achieve financial goals and independence by providing retirement security offerings. In the U.S., retirement security products include various types of annuity and guaranteed retirement income products, as well as individual and group long-term care and Medicare supplement insurance. Across all of our businesses, we differentiate through product innovation and by providing valued services such as education and training, wellness programs, support services and technology linked to our insurance, investment and financial products that address both consumer and distributor needs. In doing so, we strive to be easy to do business with and help our business partners grow more effectively.

As of December 31, 2007, we had the following operating segments:

Retirement and Protection. We offer a variety of protection, wealth accumulation, retirement income and institutional products. Protection products include: life insurance, long-term care insurance and a linked-benefits product that combines long-term care insurance with universal life insurance. Additionally, we offer Medicare supplement insurance and wellness and care coordination services for our long-term care policyholders. Our wealth accumulation and retirement income products principally include: fixed and variable deferred and immediate individual annuities, group variable annuities offered through retirement plans, and a variety of managed account programs, financial planning services and mutual funds. Institutional products include: funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs). For the year ended December 31, 2007, our Retirement and Protection segment's net income and net operating income were \$565 million and \$762 million, respectively.

International. In Canada, Australia, New Zealand, Mexico, Japan and multiple European countries, we are a leading provider of mortgage insurance products. We are the largest private mortgage insurer in most of our international markets. We also provide mortgage insurance on a structured, or bulk, basis which aids in the sale of mortgages to the capital markets and helps lenders manage capital and risks. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We also offer payment protection coverages in multiple European

Table of Contents

countries, Canada and Mexico. Our payment protection insurance products help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death. For the year ended December 31, 2007, our International segment's net income and net operating income were \$580 million and \$585 million, respectively.

U.S. Mortgage Insurance. In the U.S., 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 structured, or bulk, basis with essentially all of our bulk writings prime-based. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. For the year ended December 31, 2007, our U.S. Mortgage Insurance segment's net income and net operating income were \$171 million and \$167 million, respectively.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions, the results of non-core businesses that are managed outside of our operating segments and our group life and health insurance business, which we sold on May 31, 2007. We acquired Liberty Reverse Mortgage, Incorporated (Liberty), an originator of reverse mortgage loans, on October 31, 2007, as part of our focus on retirement needs and enabling consumers to have liquidity to meet certain financial obligations. The results of Liberty are included in our Corporate and Other activities. For the year ended December 31, 2007, Corporate and Other activities had a loss from continuing operations and a net operating loss of \$162 million and \$141 million, respectively.

On a consolidated basis, we had \$13.5 billion of total stockholders' equity and \$114.3 billion of total assets as of December 31, 2007. For the year ended December 31, 2007, our revenues were \$11.1 billion and net income was \$1.2 billion.

Our principal U.S. life insurance companies have financial strength ratings of AA- (Very Strong) from S&P, Aa3 (Excellent) from Moody's, A+ (Superior) from A.M. Best and AA- (Very Strong) from Fitch, and our rated mortgage insurance companies have financial strength ratings of AA (Very Strong) from Standard and Poor's (S&P), Aa2 (Excellent) from Moody's, AA (Very Strong) from Fitch and/or AA (Superior) from Dominion Bond Rating Service (DBRS).

Genworth was incorporated in Delaware in 2003 in preparation for the corporate formation of certain insurance and related subsidiaries of the General Electric Company (GE) and an initial public offering of Genworth common stock, which was completed on May 28, 2004 (IPO). In 2006, GE completed its final offering of our shares and no longer owns any of our outstanding common stock. See note 1 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data for additional information.

Market Environment and Opportunities

As a leading financial security company, we believe we are well positioned to benefit from significant demographic, governmental and market trends, including the following:

Aging global population with growing retirement income needs. More than half of the world's oldest citizens, aged 85 or above, live in six countries. In 2007, 500 million people worldwide were aged 65 and older; by 2030 that number will increase to one billion (one out of every eight of the world's inhabitants). In the U.S., the percentage of the population aged 55 or older is expected to increase from approximately 22%, or 65 million, in 2004 to more than 29%, or 97 million, by 2020, according to the U.S. Census Bureau. Life expectancy has risen to 75.0 years for men and 79.7 years for women, according to the U.S. Social Security Administration, and further increases are projected. For a married couple, each aged 65, there is a 50% likelihood that one will survive to age 91 and a 25% chance that one will survive to 95, according to Society of Actuaries tables. Meanwhile, fewer companies are offering defined benefit plans than in the past, and the U.S. Social Security Administration in 2006

Table of Contents

projected that its reserves could be exhausted by 2040, potentially creating the need for individuals to identify alternate sources of retirement income. Additionally, U.S. savings rates overall are at historic lows. We believe these trends will increase demand for wealth accumulation offerings, income distribution, long-term care insurance and liquidity solutions as part of a responsible financial plan. Similar trends are occurring globally, as populations age, and we see selective opportunities to expand our retirement income and wealth accumulation offerings to countries outside the U.S.

Growing lifestyle protection gap. The aging U.S. and world population, coupled with other factors such as the decline in defined benefit plans in the U.S., is creating a significant life and retirement security gap for many individuals. A growing number of individuals have insufficient resources, including insurance coverage, to ensure that assets and income will be adequate to support desired lifestyles now and in the future. Declining savings rates, rising healthcare and nursing care costs, and shifting burdens for funding protection needs from governments and employers to individuals, are contributing to this gap. Many individuals are facing increased personal debt levels, with limited or no resources to manage against unforeseen events. We expect these trends to drive increased demand for life and long-term care insurance and a linked-benefits product and payment protection coverage we offer, as well as for our asset accumulation and managed money products and services, income distribution and liquidity offerings.

Increasing opportunities for mortgage insurance internationally and in the U.S. We expect that increasing homeownership trends and initiatives, capital regulation and risk management activities in the U.S., Canada, Australia and Europe will contribute to the growing use of mortgage insurance and related services. Globally, government housing policies and demographic factors are driving demand for housing, particularly among underserved minority and immigrant populations. These needs are being met through the expansion of low-down-payment mortgage loan offerings and legislative and regulatory policies that provide capital incentives for lenders to transfer risk to mortgage insurers. A number of these factors also are emerging in some European, Latin American and Asian markets, where lenders increasingly are using mortgage insurance to manage the risks of loan portfolios and to expand low-down-payment lending. In the U.S., the demand for mortgage insurance increased during 2007 as a result of market conditions including increased regulatory and market focus on credit risk, ongoing tightening of underwriting standards, an increase in the volume of mortgages purchased by the government-sponsored enterprises (GSEs), a return to traditional fixed rate mortgages, a decline in simultaneous second mortgages and mortgage insurance tax deductibility.

Competitive Strengths

We believe the following competitive strengths will enable us to capitalize on opportunities in our targeted markets:

Leading positions in diversified targeted markets. We believe our leading positions in long-term care insurance, managed money services, income distribution offerings, payment protection insurance in Europe and international mortgage insurance, as well as certain products within our life insurance and retirement income businesses, provide us with a strong and differentiated base of business that enables us to compete effectively in these markets as they grow. We also believe our strong presence in multiple markets provides a diversified and balanced base of business, reduces our exposure to adverse economic trends affecting any one market and provides stable cash flow to fund growth.

Table of Contents

Product innovation and breadth, plus service offerings. We continue to innovate and offer a breadth of products that meet the needs of consumers at various stages of their lives. We believe these products are positioned to benefit from current trends among distributors to limit the number of insurers with which they maintain relationships to those with the highest value-added product and services. Our services include consumer programs such as wellness information, medical screenings, care coordination and other services that complement our insurance offerings. We strive to maintain appropriate return and risk thresholds when we expand the scope of our product offerings.

Extensive, multi-channel distribution network. We have extensive distribution reach across a broad network of financial intermediaries, independent producers and dedicated sales specialists. We maintain strong relationships with leading distributors by providing a high level of specialized and differentiated support, technology and service solutions to enhance their sales efforts and targeted educational and support offerings, including certified courses. During 2007, we expanded our distribution reach to provide long-term care insurance products to the approximately 39 million members of AARP.

Innovative capital markets solutions. We believe we are an industry leader in developing capital markets solutions and investment products that allow us to use capital more efficiently and increase our returns, manage risk and support new business models. We were the first company to securitize statutory term life insurance reserves (XXX securitizations), and we were again the first company to create a similar solution for statutory universal life insurance reserves (AXXX securitization).

Technology-enhanced, service-oriented, scalable, low-cost operating platform. We actively manage costs and drive continuous customer service improvement. We use technology to enhance performance by automating key processes to reduce response times and process variations. In addition, we have centralized operations and established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. We also outsource selected back office support services to a small group of professional service providers in India.

Disciplined risk management with strong compliance practices. Risk management and regulatory compliance are critical to our business. We employ comprehensive risk management processes in virtually every aspect of our operations, including product development, underwriting, investment management, asset-liability management and technology development programs.

Strong balance sheet and high quality investment portfolio. We believe our size, ratings and capital strength provide us with a competitive advantage. We have a diversified, high quality portfolio with \$73.9 billion of cash, cash equivalents and invested assets as of December 31, 2007. Approximately 95% of our fixed maturity securities had ratings equivalent to investment grade and approximately 1% of our total investment portfolio consisted of equity securities as of December 31, 2007. We conduct active asset-liability management, and we pursue selected portfolio, hedging and capital markets strategies to enhance portfolio returns.

Experienced management team. We have an established track record of successfully developing managerial talent at all levels and have instilled a performance- and execution-oriented corporate culture.

Growth Strategies

Our objective is to increase targeted revenues, grow and protect margins, expand operating income and enhance returns on equity. We do this by focusing on the following strategies:

Capitalize on attractive growth prospects in key markets. We have positioned our product portfolio and distribution relationships to capitalize on attractive growth prospects in our key markets:

Retirement and Protection. We believe growth in managed money and retirement income will be driven by favorable demographic trends and products designed to help customers accumulate assets

Table of Contents

and convert them into reliable income throughout their retirement years or other desired periods. In life insurance, we believe growth will be driven by the significant protection gaps among individuals and families. In long-term care insurance, we believe growth will be driven by the increasing needs of an expanding, aging population and the lack of funding for these needs from government programs or corporate benefits. We also believe consumers will increasingly seek linked-benefits products and liquidity solutions to help them fund retirement and health care needs.

International. We continue to see attractive growth opportunities in international mortgage insurance as homeownership and the use of low-down-payment lending expand globally. Our international mortgage and payment protection insurance businesses have established business relationships or licenses in multiple countries in North America, Australia, Europe and Asia. We also believe global markets will present increasing opportunities for other product expansion beyond mortgage and payment protection insurance particularly in the areas of managed money and retirement income, as populations age and consumers seek products that help them achieve financial security. In payment protection insurance, we believe growth will result from increasing consumer borrowing in Europe, expansion of the European Union, reduced unemployment benefits in key European markets and our expansion beyond Europe.

U.S. Mortgage Insurance. Even with the current downturn in the U.S. housing market, we believe that long-term demographic trends supporting the U.S. housing market remain strong, with continued strength in the first-time homebuyers market, which includes ongoing growth in emerging market household formation and homeownership. We believe this long-term demographic trend will drive demand for high loan-to-value debt. We also believe that various market forces, including recently issued guidance from U.S. federal financial regulators to financial institutions on risks related to non-traditional mortgages, ongoing tightening of underwriting standards, an increase in the volume of mortgages purchased by GSEs, the return to traditional fixed rate mortgages, a decline in simultaneous second mortgages and mortgage insurance tax deductibility, may help increase the use of fixed rate mortgages and the use of our mortgage insurance products.

Further strengthen and extend our distribution channels. We intend to grow distribution by continuing to differentiate in areas where we believe we have distinct competitive advantages. These areas include:

Product and service innovations. Examples include the introduction of a number of products, including a group variable annuity with guaranteed income features and guaranteed withdrawal benefit features to the qualified plan markets (401(k) plans), our registered FABN product for retail investors, new features to our Income Distribution Series of variable annuity products, return of premium term life insurance products, our linked-benefits product for customers who traditionally self-funded long-term care expenses, our CornerStone AdvantageSM product which offers lower cost individual long-term care insurance, our HomeOpeners[®] mortgage insurance products designed to attract first-time home buyers and private mortgage insurance products in the European market. Additional service innovations include programs such as automated underwriting in our life, long-term care and mortgage insurance businesses, dedicated customer service teams and customer care programs supporting wellness and homeownership.

Collaborative approach to key distributors. Our collaborative approach to key distributors includes our strong support and educational offerings of consultative selling practices, joint business improvement programs and tailored approach to sales intermediaries addressing their unique service needs. Additionally, we are expanding product and service offerings broadly in the financial advisor and managed money arena as we coordinate our asset accumulation businesses under the leadership of AssetMark Investment Services, Inc. (AssetMark).

Technology initiatives. These initiatives include proprietary underwriting systems, making it easier for distributors to do business with us, improving our term life, long-term care and mortgage insurance underwriting speed and accuracy while lowering our operating costs.

Table of Contents

Enhance returns on capital and increase margins. We employ five levers to drive higher returns on capital and increase margins.

These levers include:

Adding new business at targeted returns and optimizing our business mix. We have introduced new products, revised pricing and targeted higher return distribution channels in multiple business lines to increase returns. For example, in our Retirement and Protection segment, we have shifted capital to higher return, fee-based products. In our International segment, we leverage our international platforms for faster growth in markets in which we are generating our highest returns. In our U.S. Mortgage Insurance segment, we are increasing our focus on distribution channels that have higher returns, and also benefit from our service-oriented marketing approach.

Capital generation and redeployment. We generate significant statutory capital from in-force business and capital efficiency initiatives, which we then actively redeploy to new business and acquisitions. We also consider share repurchases or dividend increases as alternative capital uses when we do not see additional opportunities to fund growth. We have certain blocks of business with low returns including older blocks of long-term care insurance and certain blocks of spread-based annuities, life insurance and institutional products. In 2007, we released a significant amount of capital supporting spread-based annuities and institutional products, including capital released from the maturity of older issued fixed annuities and GICs. We also released \$511 million of statutory contingency reserves supporting our U.S. mortgage insurance business. Additionally, we received gross cash proceeds of approximately \$660 million in May 2007 upon completing the sale of our group life and health insurance business.

Targeted use of capital markets. We continue to make progress in using the capital markets to optimize capital efficiency, manage risk and support new business growth models. During 2007, we completed approximately \$790 million of statutory term life insurance reserve securitizations. In addition, we continue to evaluate capital market opportunities to redeploy capital from lower returning blocks of business.

Operating cost reductions and efficiencies. We focus on reducing our cost base while maintaining strong service levels. We continue to evaluate and identify significant opportunities for improved efficiency and functional consolidation to enhance growth and improve margins.

Investment income enhancements. We seek to enhance investment yields by evaluating and gradually repositioning our asset class mix, pursuing additional investment classes, using active management strategies, implementing best in class technology and hiring experienced portfolio management and risk professionals to significantly enhance our flexibility and overall capabilities. We expect our investment portfolios to make a gradual contribution to Genworth's return on equity progression over the next several years.

Retirement and Protection

Through our Retirement and Protection segment, we market various forms of managed money, retirement income, institutional, life insurance and long-term care insurance products and services. In connection with our strategy to expand our managed money business, we acquired AssetMark, a leading provider of open architecture asset management solutions to independent financial advisors, in 2006. Retirement income focused products include variable annuities, fixed annuities and single premium immediate annuities. We also offer specialized institutional products, including FABNs, funding agreements and GICs. Overall, we look to improve spreads on our spread-based products, including our retirement income spread-based and institutional businesses, and expand our presence in fee-based products and services offered by our managed money and retirement income businesses. Protection products include term life insurance, universal life insurance, long-term care insurance for individual and group markets, and Medicare supplement insurance and other senior services.

Table of Contents

The following table sets forth financial information regarding our Retirement and Protection segment as of or for the periods indicated. For additional selected financial information and operating performance measures regarding our Retirement and Protection segment as of or for these periods, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Retirement and Protection.

(Amounts in millions)	As of or for the years ended		
	2007	December 31, 2006	2005
Revenues:			
Managed money	\$ 336	\$ 199	\$ 132
Retirement income	1,912	2,161	2,338
Institutional	516	572	442
Life insurance	1,959	1,807	1,623
Long-term care insurance	2,836	2,626	2,347
Total revenues	\$ 7,559	\$ 7,365	\$ 6,882
Net operating income:			
Managed money	\$ 44	\$ 20	\$ 10
Retirement income	212	175	200
Institutional	43	42	37
Life insurance	310	313	275
Long-term care insurance	153	153	172
Total net operating income	762	703	694
Net investment gains (losses), net of taxes and other adjustments	(197)	(30)	
Total net income	\$ 565	\$ 673	\$ 694
Total segment assets	\$ 94,360	\$ 92,820	\$ 87,243

Managed money

We offer asset management products and services to affluent individual investors. We provide and tailor client advice, asset allocation, products and prepackaged support, services and technology to the independent advisor channel. We achieved double-digit sales growth over the last three years in this business and expanded our presence in the managed account service provider market, also known as the turnkey asset management platform market, through the acquisition of AssetMark. The combined resources of Genworth Financial Asset Management, Inc. (GFAM) and AssetMark provide us with the opportunity to become a leading provider in this market. As of December 31, 2007, we were ranked fourth based on the fourth quarter 2007 *Managed Account Research* published by Cerulli Associates (Cerulli Research) with more than 100,000 accounts and \$21.6 billion of assets under management.

Products

GFAM's asset management clients are referred to us through financial advisers, and we work with these financial advisers to develop portfolios consisting of individual securities, mutual funds, exchange traded funds and variable annuities designed to meet each client's particular investment objectives. Most of our clients for these products and services have accumulated significant capital, and our principal asset management strategy is to help protect their assets while taking advantage of opportunities for capital appreciation. Advisory clients are offered the custodial services of our trust company, Genworth Financial Trust Company.

Through its open-architecture platform, AssetMark offers to financial advisors one of the most comprehensive fee-based investment management platforms in the industry, access to custodians, client relationship management tools and business development programs, to enable these retail financial advisors to

Table of Contents

offer institutional caliber services to their clients. AssetMark also serves as investment advisor to the AssetMark Funds which are mutual funds offered to clients of financial advisors.

Additionally, through our affiliated retail broker/dealers, we offer annuity and insurance products, including our proprietary products, as well as third-party mutual funds and other investment products.

Distribution

We distribute these products and services through approximately 5,500 independent investment advisory professionals and more than 2,400 financial professionals affiliated with our retail broker/dealers.

Competition

We compete primarily in the managed account service provider market. The market is highly competitive, and is differentiated by service, convenience, product offerings and price. The ten largest companies in the managed money market comprise approximately 95% of assets under management based on Cerulli Research.

Retirement income

We are focused on helping individuals create dependable income streams for life or for a specified period of time and helping them save and invest to achieve financial goals. We believe our innovative product design reduces some of the risks to insurers that generally accompany traditional products with guaranteed minimum income benefits. We are targeting people who are focused on building a personal portable retirement plan or are moving from the accumulation to the distribution phase of their retirement planning.

Fee-based retail products

Variable annuities and variable life insurance

We offer variable annuities that offer customers a variety of separate account subaccount investment options, as well as the option to make allocations to a guaranteed interest account managed within our general account. Generally, the contractholder bears the entire risk associated with the performance of investments in the separate account, other than for certain contractual guarantees such as the guaranteed minimum death benefit (GMDB), or guaranteed minimum income stream, described below.

Variable annuities generally provide us fees including mortality and expense risk charges and, in some cases, administrative charges. The fees equal a percentage of the contractholder's policy account value and typically range from 0.75% to 3.30% per annum depending on the features and options within a contract.

Our variable annuity contracts generally provide a basic GMDB which provides a minimum account value to be paid upon the annuitant's death. Contractholders may also have the option to purchase riders that provide enhanced death benefits. Assuming every annuitant died on December 31, 2007, as of that date, contracts with death benefit features not covered by reinsurance had an account value of \$6,872 million and a related death benefit exposure of \$37 million net amount at risk.

Our Income Distribution Series of variable annuity products provides the contractholder with a guaranteed minimum income stream that they cannot outlive, along with an opportunity to participate in market appreciation.

As a solution to the trend of employers moving away from traditional defined benefit retirement plans to defined contribution plans such as 401(k) plans, we have introduced to the qualified plan market a group variable annuity with guaranteed retirement income and guaranteed minimum withdrawal benefit features. This product is

Table of Contents

designed to offer participants the ability to secure guaranteed retirement income with growth potential during the accumulation phase while maintaining liquidity; and during the distribution phase, to provide guaranteed annual income with upside growth potential with varying degrees of liquidity with respect to underlying assets.

In addition to variable annuities, we offer variable life insurance products on a limited basis.

Institutional Asset Management Services

Until December 31, 2006, we managed a pool of municipal GICs issued by affiliates of GE. As of January 1, 2007, we now provide transition and consulting services to the GE affiliates for their municipal GICs through December 15, 2008.

Distribution

We distribute these products through banks, national brokerage firms and independent broker/dealers. The underlying mutual funds are distributed via a direct salesforce and through defined contribution plan record keepers. We continue to work with additional record keepers to adopt this product on their platforms.

Competition

There are numerous competitors in this market within all major distribution channels that we sell through. Our Income Distribution Series of products enable consumers to opt for lifetime guaranteed income beginning immediately or on a deferred basis. We have been an early mover in this market space and believe we are well positioned to compete.

Spread-based retail products

Fixed annuities

We offer fixed single premium deferred annuities (SPDAs), which require a single premium payment at time of issue and provide an accumulation period and an annuity payout period. During the accumulation period, we credit the account value of the annuity with interest earned at a crediting rate guaranteed for no less than one year at issue, but which may be guaranteed for up to six years, and thereafter is subject to annual crediting rate resets at our discretion, based upon competitive factors and prevailing market rates, subject to statutory minimums. Our fixed annuity contracts are supported by our general account, and the accrual of interest during the accumulation period is generally on a tax-deferred basis to the owner. The majority of our fixed annuity contractholders retain their contracts for five to ten years.

Single premium immediate annuities

In exchange for a single premium, immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant's lifetime, or the longer of the defined number of years or the annuitant's lifetime. Fixed annuities also include annuitizations chosen as a settlement option for an existing deferred annuity contract.

Structured settlements

Structured settlement annuity contracts provide an alternative to a lump sum settlement, generally in a personal injury lawsuit or workers compensation claim, and typically are purchased by property and casualty insurance companies for the benefit of an injured claimant. The structured settlements provide scheduled payments over a fixed period or, in the case of a life-contingent structured settlement, for the life of the claimant

Table of Contents

with a guaranteed minimum period of payments. In the third quarter of 2006, we discontinued sales of our structured settlement annuities while continuing to service our retained and reinsured blocks of business.

Distribution

We distribute these products through banks, national brokerage firms and independent broker/dealers.

Competition

We compete with a large number of life insurance companies in the single premium immediate annuity marketplace. We continue to see long-term growth prospects for single premium immediate annuities based both on demographics and government policy trends that favor a greater role for private solutions in meeting long-term retirement needs. We believe long-term experience with mortality and longevity, combined with disciplined risk management, provide competitive advantages in how we segment and price our products.

We have long-term bank distribution relationships that we believe allow us to maintain the distribution shelf space needed to succeed in this highly competitive fixed annuity marketplace. Sales of fixed annuities are strongly linked to current interest rates, which affect the relative competitiveness of alternative products, such as certificates of deposit and money market funds. We have experienced fluctuations in sales levels for this product and expect these fluctuations to continue in the future. We maintain pricing disciplines to achieve target return levels through varying interest rate environments.

Institutional

We offer funding agreements, FABNs and GICs, which are deposit-type products that pay a guaranteed return to the contractholder on specified dates. Our institutional products are used by qualified and non-qualified plans that desire the features and guarantees inherent in these instruments. We sell these specialized products to institutional customers for use in retirement plans, money market funds and other investment purposes. In December 2005, we launched a registered FABN program to institutional investors. In January 2007, we launched a second FABN program which is a global medium term notes (GMTN) offering primarily offered to non-U.S. investors. In December 2007, we began offering FABNs to retail investors through our registered FABN program.

We approach the institutional markets opportunistically and issue new business when we can achieve targeted returns and maintain an appropriate mix of institutional and retail products. We may experience significant fluctuations in new deposits as we will issue new business when interest rate spreads are favorable and may issue no new business when interest rate spreads are not favorable.

Products

Funding agreements are purchased by institutional accredited investors for various kinds of non-qualified accounts. Purchasers of funding agreements include money market funds, bank common trust funds and other corporate and trust accounts and private investors, including Genworth Global Funding Trust and Genworth Life Institutional Funding Trust as part of our FABN programs. GICs are purchased by Employee Retirement Income Security Act of 1974 (ERISA) qualified plans, including pension and 401(k) plans.

Our funding agreements generally credit interest on deposits at a floating rate tied to an external market index and we generally invest the proceeds in floating rate assets. When we issue fixed rate funding agreements, we may enter into counterparty swap arrangements where we exchange our fixed rate interest payment for a floating rate that is tied to an index in order to correlate to the floating rate assets. The funding agreements issued through our FABN programs are typically issued for terms of one to seven years. Substantially all of our GICs allow for the payment of benefits at contract value to ERISA plan participants prior to contract maturity in the event of death,

Table of Contents

disability, retirement or change in investment election. We carefully underwrite these risks before issuing a GIC to a plan and historically have been able to effectively manage our exposure to these benefit payments. Our GICs typically credit interest at a fixed interest rate and have a fixed maturity generally ranging from two to six years.

Distribution

Our FABNs are distributed through investment banks. We place our funding agreements directly and through specialized brokers. GICs are sold both directly and through investment managers.

Competition

We compete with other large, highly rated insurance companies in these institutional markets. Our credit quality, both long- and short-term, liquidity and price differentiate us in these markets.

Life insurance

Our life insurance business markets and sells products that provide a personal financial safety net for individuals and their families. These products provide protection against financial hardship after the death of an insured and may also offer a savings element that can be used to help accumulate funds to meet future financial needs. According to the American Council of Life Insurers, face value of new life insurance coverage sold in the U.S. totaled \$2.9 trillion in 2006, and total life insurance coverage in the U.S. was \$19.1 trillion as of December 31, 2006.

Products

Our principal life insurance products are term life and universal life. We also have a runoff block of whole life insurance. Term life insurance products provide coverage with guaranteed level premiums for a specified period of time and generally have little or no buildup of cash value. We have been a leading provider of term life insurance for more than two decades, and are a leader in marketing term life insurance through brokerage general agencies (BGAs) in the U.S.

Universal life insurance products are designed to provide permanent protection for the life of the insured and may include a buildup of cash value that can be used to meet particular financial needs during the policyholder's lifetime.

Underwriting and pricing

Underwriting and pricing are significant drivers of profitability in our life insurance business, and we have established rigorous underwriting and pricing practices. We retain most of the risk we currently underwrite. We have generally reinsured risks in excess of \$1 million per life. Beginning January 1, 2007, we increased our retention limit to \$5 million for new policies. From time-to-time, we may reinsure any risk depending on the pricing terms of available reinsurance. We set pricing assumptions for expected claims, lapses, investment returns, expenses and customer demographics based on our experience and other factors.

We price our insurance policies based primarily upon our historical experience. We target individuals in preferred risk categories, which include healthier individuals who generally have family histories that do not present increased mortality risk. We also have significant expertise in evaluating people with health problems and offer appropriately priced coverage based on stringent underwriting criteria.

Distribution

We offer life insurance products through an extensive network of independent BGAs throughout the U.S. and through affluent market producer groups, financial intermediaries and insurance marketing organizations. We believe there are opportunities to expand our sales through each of these and other distribution channels.

Table of Contents

Competition

Competition in our life insurance business comes from many sources, including many traditional insurance companies as well as non-traditional providers, such as banks and private equity markets. The life insurance market is highly fragmented, with the top ten term life insurance companies comprising approximately 47% of industry sales and the top ten universal life insurance companies comprising approximately 46% of industry sales based on LIMRA International data for 2007. Competitors have multiple access points to the market through BGAs, financial institutions, career sales agents, multi-line exclusive agents, e-retail and other life insurance distributors. We operate primarily in the BGA channel and are building out our capabilities in other channels. We believe our competitive advantage in the term life insurance market comes from our long history serving this market, our service excellence, underwriting expertise and capital markets leadership. We are currently building out our universal life insurance product suite to take advantage of increased distributor and consumer demand.

Long-term care insurance

We established ourselves as a pioneer in long-term care insurance over 30 years ago. We are a leading provider in the industry. Our experience helps us plan for disciplined growth built on a foundation of strong risk management, product innovation and a diversified distribution strategy.

In July 2007, AARP selected us as its provider to offer new long-term care insurance products to its approximately 39 million members, and we entered into a five-year exclusive endorsement agreement with AARP in the fourth quarter of 2007. This relationship will provide access to two new distribution channels, telephone and internet sales, with direct access to customers.

In addition, in July 2007, we announced our plans to file for a premium rate increase of between 8% and 12% on most of our block of older issued long-term care insurance policies and are currently in the process of implementing this rate increase. This block represents approximately \$700 million, or 40%, of our total annual long-term care insurance premium in-force.

Products

Our individual and group long-term care insurance products provide defined levels of protection against the high and escalating costs of long-term care provided in the insured's home or in assisted living or nursing facilities. Insureds become eligible for certain covered benefits if they become incapable of performing certain activities of daily living or become cognitively impaired. In contrast to health insurance, long-term care insurance provides coverage for skilled and custodial care provided outside of a hospital or health-related facility. The typical claim has a duration of approximately one to four years.

In 2007, we launched Cornerstone AdvantageSM, a low cost consumer product. We believe that our lower price point and coinsurance structure offers an affordable product to a consumer base that would traditionally not have purchased our long-term care insurance products.

In 2006, we introduced a series of product upgrades designed to provide a variety of pricing and benefit options, enhanced service capabilities, broaden types of coverage and simplify individual product features. In this connection, we expanded our group long-term care insurance business. We also offer a linked-benefits product for customers who traditionally self-funded long-term care expenses. Our linked-benefits product combines universal life insurance with long-term care insurance coverage in a single policy. The policy provides coverage for cash value, death benefits and long-term care benefits.

We expanded our Medicare supplement insurance product in a majority of states and have seen growth in these new states. To further expand our senior supplementary product capabilities, we acquired Continental Life Insurance Company of Brentwood, Tennessee (Continental Life) in 2006. This acquisition more than doubled

Table of Contents

our existing annualized Medicare supplement premiums in-force and provides a potential platform for expanding in other senior supplementary products. In 2007, American Continental Insurance Company, a subsidiary of Continental Life, expanded its offering of competitively priced Medicare supplement insurance product in 24 states where it was previously not licensed.

Underwriting and pricing

We employ extensive medical underwriting policies to assess and quantify risks before we issue our long-term care insurance policies, similar to, but separate from, those we use in underwriting life insurance products.

We have accumulated extensive pricing and claims experience, and believe we have the largest actuarial database in the industry. The overall profitability of our long-term care insurance business depends on the accuracy of our pricing assumptions for claims experience, morbidity and mortality experience, lapse rates and investment yields. Our actuarial database provides us with substantial data that has helped us develop sophisticated pricing methodologies for our newer policies. We tailor pricing based on segmented risk categories, including marital status, medical history and other factors. Profitability on older policies issued without the full benefit of this experience and pricing methodology has been lower than initially assumed in pricing of those blocks. We continually monitor trends and developments and update assumptions that may affect the risk, pricing and profitability of our long-term care insurance products and adjust our new product pricing and other terms, as appropriate. We also work with a Medical Advisory Board, comprised of independent experts from the medical technology and public policy fields, that provides insights on emerging morbidity and medical trends, enabling us to be more proactive in our risk segmentation, pricing and product development strategies.

Distribution

We have a broad and diverse distribution network for our products. We distribute our products through diversified sales channels consisting of approximately 130,000 appointed independent producers, financial intermediaries and 1,200 dedicated sales specialists. Approximately 200 employees support these diversified distribution channels. We have made significant investments in our servicing and support for both independent and dedicated sales specialists and we believe our product features, distribution support and services are leading the industry.

Competition

Competition in the long-term care insurance industry is primarily limited to the top ten insurance companies. Our products compete by providing consumers with an array of long-term care planning solutions available from a single company. There is a product and price point available within the reach of a wide spectrum of the population who are concerned about mitigating the costs of a future long-term care need or leveraging their self-insurance dollars. We believe our significant historical experience and risk disciplines provide us with a competitive advantage in the form of sound product pricing and company stability.

International

In our International segment, we currently offer mortgage insurance and payment protection insurance and have a presence in over 25 countries.

Through our international mortgage insurance business, we are a leading provider of mortgage insurance in Canada, Australia, New Zealand, Mexico, Japan and multiple European countries. We expanded our international operations throughout the 1990s and, today, we believe we are the largest overall provider of mortgage insurance outside the U.S.

Private mortgage insurance enables borrowers to buy homes with low-down-payment mortgages, which are usually defined as loans with a down payment of less than 20% of the home's value. Low-down-payment

Table of Contents

mortgages are also referred to as high loan-to-value mortgages. Mortgage insurance protects lenders against loss in the event of a borrower's default. It also generally aids financial institutions in managing their capital by reducing the capital required for low-down-payment mortgages. If a borrower defaults on mortgage payments, private mortgage insurance reduces and may eliminate losses to the insured institution. Private mortgage insurance may also facilitate the sale of mortgage loans in the secondary mortgage market.

Our payment protection insurance helps consumers meet payment obligations on outstanding financial commitments, such as mortgages, personal loans or credit cards, in the event of a misfortune such as illness, accident, involuntary unemployment, temporary incapacity, permanent disability or death.

The following table sets forth financial information regarding our International segment as of or for the periods indicated. Additional selected financial information and operating performance metrics regarding our International segment as of or for these periods are included under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations International.

(Amounts in millions)	As of or for the years ended		
	December 31,		
	2007	2006	2005
Revenues:			
International mortgage insurance	\$ 1,161	\$ 860	\$ 611
Payment protection insurance	1,528	1,284	1,492
Total revenues	\$ 2,689	\$ 2,144	\$ 2,103
Net operating income:			
International mortgage insurance	\$ 455	\$ 355	\$ 269
Payment protection insurance	130	113	90
Total net operating income	585	468	359
Net investment gains (losses), net of taxes and other adjustments	(5)	1	
Total net income	\$ 580	\$ 469	\$ 359
Total segment assets	\$ 11,892	\$ 8,518	\$ 6,961

International mortgage insurance

We have significant mortgage insurance operations in Canada and Australia, two of the largest markets for mortgage insurance products outside of the U.S., as well as smaller operations in New Zealand and the developing markets in Europe, Mexico and Japan.

The mortgage loan markets in Canada and Australia are well developed, and mortgage insurance plays an important role in each of these markets. However, these markets vary significantly and are influenced by different cultural, economic and regulatory conditions.

We believe the following factors have contributed to the growth of mortgage insurance demand in these countries:

- a desire by lenders to expand their business by offering low-down-payment mortgage loans;

- the recognition of the higher default risk inherent in low-down-payment lending and the need for specialized underwriting expertise to conduct this business prudently;

Edgar Filing: GENWORTH FINANCIAL INC - Form 10-K

government housing policies that support increased homeownership;

government policies that support the use of securitization and secondary market mortgage sales, in which third-party credit enhancement is often used as a source of funding and liquidity for mortgage lending; and

Table of Contents

bank regulatory capital policies that provide incentives to lenders to transfer some or all of the credit risk on low-down-payment mortgages to third parties, such as mortgage insurers.

We believe a number of these factors have contributed to the growth of mortgage insurance demand in markets throughout Europe, Latin America and Asia and provide opportunities for us to expand our mortgage insurance business in those markets.

Based upon our experience in the mature markets, we believe a favorable regulatory framework is important to the development of high loan-to-value lending and the use of products such as mortgage insurance to protect against default risk or to obtain capital relief. As a result, we have advocated governmental and policymaking agencies throughout our markets to adopt legislative and regulatory policies supporting increased homeownership and the use of private mortgage insurance. We have significant expertise in mature markets, and we leverage this experience in developing markets as we continue to encourage regulatory authorities to implement incentives to use private mortgage insurance as an effective risk management strategy.

We believe the revisions to a set of regulatory rules and procedures governing global bank capital standards that were introduced by the Basel Committee of the Bank for International Settlements, known as Basel II, also may encourage further growth of international mortgage insurance. Basel II has been designed to reward banks that have developed effective risk management systems by allowing them to hold less capital than banks with less effective systems. While Basel II was finalized and issued in June 2004, its adoption by individual countries internationally and in the U.S. is ongoing. Therefore, we cannot predict the benefits that ultimately will be provided to lenders, or how any such benefits may affect the opportunities for the growth of mortgage insurance.

We believe a desire by lenders to offer low-down-payment mortgages and changes in government and bank regulatory capital policies have contributed to the growth of mortgage insurance demand in markets throughout Europe, Latin America and Asia and provide opportunities for us to expand our mortgage insurance business in those markets. Certain markets in these areas have strong demand for housing, but are underserved by the existing housing finance systems. As a result, we believe that mortgage insurance could enhance the overall scale, effectiveness and efficiency of these mortgage markets.

We expect lenders in these markets will seek to expand their consumer mortgage loan portfolios, while maintaining strong risk and capital management routines. With the expected implementation of the new regulatory rules and procedures governing global bank capital standards, we believe we will be well positioned to assist lenders in these markets in meeting those goals and in complying with the anticipated complexity of the risk-based capital and operating standards.

Mortgage insurance in our International segment is typically single premium and provides 100% coverage. Under single premium policies, the premium is usually included as part of the aggregate loan amount and paid to us as the mortgage insurer. We record the proceeds to unearned premium reserves, invest those proceeds and recognize the premiums over time in accordance with the expected pattern of risk emergence.

Canada

We entered the Canadian mortgage insurance market in 1995 with our acquisition of certain assets and employees from the Mortgage Insurance Corporation of Canada, and we now operate in every province and territory. We are currently the leading private mortgage insurer in the Canadian market. The ten largest mortgage originators in Canada provide the majority of the financing for residential mortgage financing in that country.

Products

We offer primary flow insurance and portfolio credit enhancement insurance. Regulations in Canada require the use of mortgage insurance for all mortgage loans extended by federally incorporated banks, trust companies and insurers, where the loan-to-value ratio exceeds 80%.

Table of Contents

We also provide portfolio credit enhancement insurance to lenders that have originated loans with loan-to-value ratios of less than or equal to 80%. These policies provide lenders with immediate capital relief from applicable bank regulatory capital requirements and facilitate the securitization of mortgages in the Canadian market. In both primary flow insurance and portfolio policies, our mortgage insurance in Canada provides insurance coverage for the entire unpaid loan balance, including interest, selling costs and expenses, following the sale of the underlying property.

Government guarantee

We have an agreement with the Canadian government under which it guarantees the benefits payable under a mortgage insurance policy, less 10% of the original principal amount of an insured loan, in the event that we fail to make claim payments with respect to that loan because of insolvency. We pay the Canadian government a risk premium for this guarantee and make other payments to a reserve fund in respect of the government's obligation. Because banks are not required to maintain regulatory capital on an asset backed by a sovereign guarantee, our 90% sovereign guarantee permits lenders purchasing our mortgage insurance to reduce their regulatory capital charges for credit risks on mortgages by 90%.

Competition

Our primary mortgage insurance competitor in Canada is the Canada Mortgage and Housing Corporation (CMHC) which is owned by the Canadian government, although there have been and may continue to be new competitors entering the Canadian market. CMHC's mortgage insurance provides lenders with 100% capital relief from bank regulatory requirements. We compete with CMHC primarily based upon our reputation for high quality customer service, quick decision-making on insurance applications, strong underwriting expertise and flexibility in product development. In addition, we compete in Canada with alternative products and financial structures, such as credit default swaps, which are designed to transfer credit default risk on mortgage loans.

Australia

We entered the Australian mortgage insurance market in 1997 with our acquisition of the operating assets of the Housing Loans Insurance Corporation (HLIC) from the Australian government. As part of the expansion of our Australian operations, we also entered the New Zealand mortgage insurance market in 1999 and acquired Vero Lenders Mortgage Insurance Limited in 2006. In 2007, we were the leading provider of mortgage insurance in Australia based upon flow new insurance written. The ten largest mortgage originators in Australia provide the majority of the financing for residential mortgage financing in that country.

Products

In Australia and New Zealand, we offer primary flow mortgage insurance, also known as lenders mortgage insurance (LMI), and portfolio credit enhancement policies. Our principal product is LMI which is similar to single premium primary flow insurance we offer in Canada with 100% coverage. Lenders usually collect the single premium from borrowers at the time the loan proceeds are advanced and remit the amount to us as the mortgage insurer.

We provide LMI on a flow basis to customers including banks, building societies, credit unions and non-bank mortgage originators, called mortgage managers. Banks, building societies and credit unions generally acquire LMI only for residential mortgage loans with loan-to-value ratios above 80%. Beginning in 2006, the Australian Prudential Regulation Authority (APRA) reduced capital requirements for high loan-to-value residential mortgages if they have been insured by a mortgage insurance company regulated by APRA. APRA's license conditions require Australian mortgage insurance companies, including ours, to be monoline insurers, which are insurance companies that offer just one type of insurance product.

Table of Contents

Mortgage managers fund their operations primarily through the issuance of mortgage-backed securities. Because they are not regulated by APRA, they do not have the same capital incentives as banks for acquiring LMI. However, they use LMI as the principal form of credit enhancement for these securities and generally purchase insurance for every loan they originate, without regard to the loan-to-value ratio.

We also provide portfolio credit enhancement policies to APRA-regulated lenders that have originated Australian loans for securitization. Portfolio mortgage insurance serves as an important source of credit enhancement for the Australian securitization market, and our portfolio credit enhancement coverage generally is purchased for low loan-to-value, seasoned loans written by APRA-regulated institutions. To date, a market for these portfolio credit enhancement policies has not developed in New Zealand to the same extent as in Australia.

Competition

The Australian and New Zealand flow mortgage insurance markets are primarily served by one other private LMI company, as well as various lender-affiliated captive mortgage insurance companies. We compete primarily based upon our reputation for high quality customer service, quick decision making on insurance applications, strong underwriting expertise and flexibility in terms of product development. As in Canada, our products also compete in Australia and New Zealand with alternative products and financial structures that are designed to transfer credit default risk on mortgage loans. At least one other U.S. mortgage insurance provider has established a subsidiary in Australia that is licensed to offer LMI, and we believe others may be considering opportunities in Australia.

Europe and other international

We began our European operations in the U.K., which is Europe's largest market for mortgage loan originations. In recent years, we expanded into eight additional countries and we continue to develop opportunities in other European countries. In 2007, we were a leading private mortgage insurance provider in Europe, based upon flow new insurance written. We also had a growing presence in the developing private mortgage insurance markets in Mexico and Japan. During 2007, certain European Union member states experienced an economic slowdown and a lower level of home price appreciation. As a result, we took various actions to reduce our new business risk profile including changes to high loan-to-value lending guidelines and tightened underwriting standards to slow growth in these markets.

Products

Our mortgage insurance products in Europe consist principally of primary flow insurance structured with single premium payments. Our primary flow insurance generally provides first-loss coverage in the event of default on a portion (typically 10% to 20%) of the balance of an individual mortgage loan. We also offer portfolio credit enhancement to lenders that have originated loans for securitization.

Competition

Our competition in Europe includes both public and private entities, including traditional mortgage insurance companies, as well as providers of alternative credit enhancement products and public mortgage guarantee facilities. Competition from alternative credit enhancement products include personal guarantees on high loan-to-value loans, second mortgages and bank guarantees, captive insurance companies organized by lenders, and alternative forms of risk transfer including capital markets solutions. We believe that our global expertise, coverage flexibility and strong ratings differentiate us from competitors and alternative products.

International mortgage insurance distribution

We maintain a dedicated sales force that markets our mortgage insurance products internationally to lenders. As in the U.S. market, our sales force markets to financial institutions and mortgage originators, who in turn offer mortgage insurance products to borrowers.

Table of Contents

Payment protection insurance

We currently provide payment protection insurance to consumers in more than 15 countries offered principally by financial services companies at the point of sale of consumer products. This business also includes a small Mexican property and casualty insurance business. We continually look to expand our payment protection insurance business by pursuing new markets, further penetration of existing distribution relationships and new products. In Europe, we are a leading provider of payment protection insurance.

Products and services

Our payment protection products include payment protection from involuntary unemployment, disability, accident and death. The benefits on these policies pay the periodic payments on the consumer loan for a limited period of time, typically twelve months, though can be up to 84 months. In some cases, for certain coverages, we may make lump sum payments. Our policies include an exclusion period that is usually 60 days and a waiting period (time between claim submission and claim payment) of typically 30 days. We also provide third-party administrative services and administer non-risk premium with some relationships in Europe. Additionally, we have entered into structured transactions, covering Canadian and European risk.

Underwriting and pricing

Our payment protection insurance is currently underwritten and priced on a program basis, by type of product and by distributor, rather than an individual policyholder basis. In setting prices, we take into account the underlying obligation, the particular product features and the average customer profile of the distributor. We believe our experience in underwriting allows us to provide competitive pricing to distributors and generate targeted returns and profits for our business.

Distribution

We distribute our payment protection insurance products primarily through financial institutions, including major European banks that offer our insurance products in connection with underlying loans or other financial products they sell to their customers. Under these arrangements, the distributors typically take responsibility for branding and marketing the products, while we take responsibility for pricing, underwriting and claims payment.

We continue to implement innovative methods for distributing our payment protection insurance products, including web-based tools that provide our distributors with a cost-effective means of applying our products to a broad range of underlying financial obligations. We believe these innovative methods also make it easier to establish arrangements with new distributors.

Competition

The payment protection insurance market has several large, highly rated international participants. We compete through our commitment to high service levels, depth of expertise in providing tailored product and service solutions and our ability to service global clients at a local level and in multiple countries, if appropriate.

U.S. Mortgage Insurance

Through our U.S. Mortgage Insurance segment, we currently provide private mortgage insurance. Private mortgage insurance enables borrowers to buy homes with low-down-payment mortgages, which are usually defined as loans with a down payment of less than 20% of the home's value. Low-down-payment mortgages are sometimes also referred to as high loan-to-value mortgages. Mortgage insurance protects lenders against loss in the event of a borrower's default. It also generally aids financial institutions in managing their capital efficiently by reducing the capital required for low-down-payment mortgages. If a borrower defaults on mortgage payments, private mortgage insurance reduces and may eliminate losses to the insured institution. Private mortgage insurance may also facilitate the sale of mortgage loans in the secondary mortgage market.

Table of Contents

We have been providing mortgage insurance products and services in the U.S. since 1981 and operate in all 50 states and the District of Columbia. According to *Inside Mortgage Finance*, in 2007, we were the second largest provider of mortgage insurance in the U.S., based on flow new insurance written. Our principal mortgage insurance customers are originators of residential mortgage loans who typically determine which mortgage insurer or insurers they will use for the placement of mortgage insurance written on loans they originate.

The U.S. private mortgage insurance industry is defined in part by the requirements and practices of Fannie Mae, Freddie Mac and other large mortgage investors. Fannie Mae and Freddie Mac purchase residential mortgages from mortgage lenders and investors, as part of their governmental mandate to provide liquidity in the secondary mortgage market. Fannie Mae and Freddie Mac purchased approximately 44% for the year ended December 31, 2007 and approximately 28% for the years ended December 31, 2006 and 2005 of all the mortgage loans originated in the U.S., according to statistics published by *Inside Mortgage Finance*. Fannie Mae and Freddie Mac are government-sponsored enterprises, and we refer to them as the GSEs. Fannie Mae's and Freddie Mac's mortgage insurance requirements include specified insurance coverage levels and minimum financial strength ratings. Fannie Mae and Freddie Mac currently require maintenance of a rating by at least two out of three listed rating agencies (S&P, Fitch and Moody's) of at least AA-/Aa3 (as applicable), with no rating below those levels by any of the three listed rating agencies; otherwise, additional limitations or requirements may be imposed for eligibility to insure loans purchased by the GSEs. In February 2008, Fannie Mae and Freddie Mac temporarily suspended automatic imposition of the additional requirements otherwise applicable upon a ratings downgrade below the above-described requirements, subject to certain specified conditions.

The GSEs may purchase mortgages with unpaid principal amounts up to a specified maximum, or the conforming loan limit, which is currently \$417,000 and subject to annual adjustment. The Economic Stimulus Act of 2008 temporarily permits the GSEs to purchase loans in excess of the \$417,000 limit in certain high-cost areas of the country. The limit in those areas is 125% of median home price for the area, but no more than \$729,750. Each GSE's Congressional charter generally prohibits it from purchasing a mortgage where the loan-to-value ratio exceeds 80% of home value unless the portion of the unpaid principal balance of the mortgage, which is in excess of 80% of the value of the property securing the mortgage, is protected against default by lender recourse, participation or by a qualified insurer. As a result, high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac generally are insured with private mortgage insurance. Fannie Mae and Freddie Mac purchased the majority of the flow loans we insured as of December 31, 2007.

The following table sets forth selected financial information regarding our U.S. Mortgage Insurance segment as of or for the periods indicated. Additional selected financial information and operating performance measures regarding our U.S. Mortgage Insurance segment as of or for these periods are included under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations U.S. Mortgage Insurance.

(Amounts in millions)	As of or for the years ended		
	December 31,		
	2007	2006	2005
Total revenues	\$ 805	\$ 658	\$ 607
Net operating income	\$ 167	\$ 259	\$ 238
Net investment gains (losses), net of taxes and other adjustments	4	3	
Total net income	\$ 171	\$ 262	\$ 238
Total segment assets	\$ 3,286	\$ 3,237	\$ 3,249

Products and services

The majority of our U.S. mortgage insurance policies provide default loss protection on a portion (typically 10% to 40%) of the balance of an individual mortgage loan. Our primary mortgage insurance policies are

Table of Contents

predominantly flow insurance policies, which cover individual loans at the time the loan is originated. We also enter into bulk insurance transactions with lenders and investors in selected instances, under which we insure a portfolio of loans for a negotiated price.

In addition to flow and bulk primary mortgage insurance, we have written a limited amount of mortgage insurance on a pool basis. Under pool insurance, the mortgage insurer provides coverage on a group of specified loans, typically for 100% of all losses on every loan in the portfolio, subject to an agreed aggregate loss limit.

Flow insurance

Flow insurance is primary mortgage insurance placed on an individual loan when the loan is originated. Our primary mortgage insurance covers default risk on first mortgage loans generally secured by one- to four-unit residential properties and can be used to protect mortgage lenders and investors from default on any type of residential mortgage loan instrument that we have approved. Our insurance covers a specified coverage percentage of a claim amount consisting of unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure. As the insurer, we are generally required to pay the coverage percentage of a claim amount specified in the primary policy, but we also have the option to pay the lender an amount equal to the unpaid loan principal, delinquent interest and certain expenses incurred with the default and foreclosure, and acquire title to the property. In addition, the claim amount may be reduced or eliminated if the loss on the defaulted loan is reduced as a result of the lender's disposition of the property. The lender selects the coverage percentage at the time the loan is originated, often to comply with investor requirements to reduce the loss exposure on loans purchased by the investor.

In connection with flow insurance, we perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and speeds the approval process. Under the terms of our contract underwriting agreements, we agree to indemnify the lender against losses incurred in the event we make material errors in determining whether loans processed by our contract underwriters meet specified underwriting or purchase criteria, subject to contractual limitations on liability.

In the U.S., we have entered into a number of reinsurance agreements in which we share portions of our flow mortgage insurance risk written on loans originated or purchased by lenders with captive reinsurance companies, or captive reinsurers, affiliated with these lenders. In return, we cede an agreed portion of our gross premiums on insurance written to the captive reinsurers. Substantially all of our captive mortgage reinsurance arrangements are structured on an excess-of-loss basis. In February 2008, Fannie Mae and Freddie Mac announced a change to its eligibility rules limiting captive reinsurance arrangements to those where premiums ceded do not exceed 25%. As of December 31, 2007, our total mortgage insurance risk in-force reinsured to all captive reinsurers was \$3.8 billion, and the total capital held in trust for our benefit by all captive reinsurers was \$0.9 billion. These captive reinsurers are not rated, and their claims-paying obligations to us are secured by an amount of capital held in trust as determined by the underlying treaties. For the year ended December 31, 2007, we recorded a reinsurance credit of \$3 million under these captive reinsurance arrangements. We expect to reach the attachment point for reinsurance credit in 2008 for additional captive reinsurance arrangements as incurred losses continue develop on our 2005 through 2007 books of business. New insurance written through the bulk channel generally is not subject to these arrangements.

Table of Contents

The following table sets forth selected financial information regarding our captive reinsurance arrangements as of or for the periods indicated:

	As of or for the years ended		
	2007	December 31, 2006	2005
Flow risk in-force subject to captive reinsurance arrangements, as a percentage of flow risk in-force	63%	65%	66%
Primary risk in-force subject to captive reinsurance arrangements, as a percentage of total primary risk in-force	60%	63%	65%
Gross written premiums ceded pursuant to captive reinsurance arrangements, as a percentage of total gross written premiums	22%	23%	24%
Primary new risk written subject to captive reinsurance arrangements, as a percentage of total primary new risk written	56%	58%	61%

Bulk insurance

Under our primary bulk insurance, we insure a portfolio of loans in a single, bulk transaction. Generally, in our bulk insurance, the individual loans in the portfolio are insured to specified levels of coverage and there may be deductible provisions and aggregate loss limits applicable to all of the insured loans. In addition, loans that we insure in bulk transactions with loan-to-value ratios above 80% typically have flow mortgage insurance, written either by us or another private mortgage insurer, which helps mitigate our exposure under these transactions. We base the premium on our bulk insurance upon our evaluation of the overall risk of the insured loans included in a transaction and we negotiate the premium directly with the securitizer or other owner of the loans. Premiums for bulk transactions generally are paid monthly by lenders, investors, or a securitization vehicle in connection with a securitization transaction or the sale of a loan portfolio. Prior to 2006, the majority of our bulk insurance business was related to loans financed by lenders who participated in the mortgage programs sponsored by the Federal Home Loan Banks (FHLBs). In 2006, we increased our participation in the GSE low documentation, or Alt-A, programs and began to provide bulk insurance on lender portfolios. During 2007, we continued to provide bulk insurance on GSE Alt-A programs. Additionally, we provided bulk insurance on lender portfolios, a substantial portion of which was comprised of low loan-to-value and high Fair Isaac Company (FICO) score payment option arm loans. With the recent issuance of guidance from U.S. federal financial regulators to financial institutions on risks related to non-traditional mortgages, specifically the identification of mortgage insurance as a risk mitigant, we believe there continues to be an opportunity for the mortgage insurance industry to provide bulk insurance on lender portfolios. We have participated in these opportunities selectively and may continue to participate where we can adequately assess the underlying risk and can achieve our targeted risk-adjusted returns.

The loans we insure in bulk transactions typically consist of prime credit-quality loans with loan-to-value ratios of 50% to 95%. We have generally avoided the sub-prime segments of the market, because we believe market pricing for mortgage insurance on sub-prime bulk transactions has not been adequate and we have had concerns regarding the volatility of this segment. As of December 31, 2007, our bulk sub-prime risk in-force was less than 2% of our total bulk risk in-force. We may consider insuring such loans in the future when we believe conditions would allow us to achieve our targeted risk-adjusted returns. Our mortgage insurance coverage levels in bulk transactions typically range from 10% to 50%.

Pool insurance

Pool insurance generally covers the loss on a defaulted mortgage loan that either exceeds the claim payment under the primary coverage (if primary insurance is required on that loan) or the total loss (if that loan does not require primary insurance), in each case up to a stated aggregate loss limit on the pool. During 2005, we began writing pool insurance selectively for state housing finance agencies. In 2006, we wrote a limited amount of pool insurance on second lien mortgages, typically held in lender portfolios. These policies cover prime credit-quality

Table of Contents

second lien mortgages and typically include aggregate stop loss provisions. We may consider participating in the future where we can achieve our targeted risk-adjusted returns.

Underwriting and pricing

Loan applications for all loans we insure are reviewed to evaluate each individual borrower's credit strength and history, the characteristics of the loan and the value of the underlying property.

Fair Isaac Company developed the FICO credit scoring model to calculate a score based upon a borrower's credit history. We use the FICO credit score as one indicator of a borrower's credit quality. The higher the credit score, the lower the likelihood that a borrower will default on a loan. FICO credit scores range up to 850, with a score of 620 or more generally viewed as a prime loan and a score below 620 generally viewed as a sub-prime loan. A minus loans generally are loans where the borrowers have FICO credit scores between 575 and 660, and where the borrower has a blemished credit history. As of December 31, 2007, on a risk in-force basis, approximately 91% of our primary insurance loans had FICO credit scores of at least 620, approximately 7% had FICO credit scores between 575 and 619, and approximately 2% had FICO credit scores of 574 or less.

Loan applications for flow mortgage insurance are reviewed by our employees directly as part of our traditional underwriting process or by our contract underwriters as we process mortgage loan applications requiring mortgage insurance. The majority of our mortgage lender customers underwrite loan applications for mortgage insurance under a delegated underwriting program, in which we permit approved lenders to commit us to insure loans using underwriting guidelines we have previously approved.

When underwriting bulk insurance transactions, we evaluate credit scores and loan characteristics of the loans in the portfolio and examine loan files on a sample basis. Each bulk transaction is assigned an overall claim rate based on a weighted average of the expected claim rates for each individual loan that comprises the transaction.

We also provide mortgage insurance for Alt-A loans, which are originated under programs in which there is a reduced level of verification or disclosure of the borrower's income or assets and a higher historical and expected default rate than standard documentation loans; Interest Only loans which allow the borrower flexibility to pay interest only, or to pay interest and as much principal as desired, during an initial period of time; and Payment Option Adjustable Rate Mortgages, which typically provide four payment options that a borrower may select for the first five years of a loan.

During the second half of 2007 and into 2008, we have taken various actions to reduce our new business risk profile including: underwriting guideline and pricing changes including a combination of price increases on Alt-A and A Minus loans, geographic limitations and tighter underwriting guidelines on lower credit and higher loan-to-value risks. We believe these underwriting and pricing actions will improve our underwriting results on these and future books of business under the anticipated economic and housing market environment, and may have an impact on our volume of new insurance written.

Distribution

We distribute our mortgage insurance products through our dedicated sales force of more than 100 employees located throughout the U.S. This sales force primarily markets to financial institutions and mortgage originators, which in turn offer mortgage insurance products to borrowers. In addition to our field sales force, we also distribute our products through a telephone sales force serving our smaller lenders, as well as through our Action Center which provides live phone and web chat-based support for all customer segments.

Competition

We compete primarily with U.S. and state government agencies, other private mortgage insurers, mortgage lenders and other investors, the GSEs and, potentially, the FHLBs. We also compete, indirectly, with structured transactions in the capital markets and with other financial instruments designed to mitigate credit risk.

Table of Contents

U.S. and state government agencies. We and other private mortgage insurers compete for flow business directly with U.S. federal and state governmental and quasi-governmental agencies, principally the Federal Housing Administration (FHA) and, to a lesser degree, the Veteran Administration (VA). In addition to competition from the FHA and the VA, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California, Illinois and New York.

Private mortgage insurers. The private mortgage insurance industry is highly competitive and currently consists of seven mortgage insurers, excluding us. Our private mortgage insurance competitors include Mortgage Guaranty Insurance Corporation; PMI Mortgage Insurance Company; CMG Mortgage Insurance Company; Radian Guaranty Inc.; Republic Mortgage Insurance Company; Triad Guaranty Insurance Corporation; and United Guaranty Residential Insurance Company.

Mortgage lenders and other investors. We and other mortgage insurers compete with transactions structured by mortgage lenders to avoid mortgage insurance on low-down-payment mortgage loans. These transactions include self-insuring and simultaneous second loans, which separate a mortgage with a loan-to-value ratio of more than 80%, which generally would require mortgage insurance, into two loans: a first mortgage with a loan to-value-ratio of 80% and a simultaneous second mortgage for the excess portion of the loan.

The GSEs Fannie Mae, Freddie Mac and FHLBs. As the predominant purchasers of conventional mortgage loans in the U.S., Fannie Mae and Freddie Mac provide a direct link between mortgage origination and capital markets. As discussed above, most high loan-to-value mortgages purchased by Fannie Mae or Freddie Mac are insured with private mortgage insurance issued by an insurer deemed qualified by the GSEs. Our mortgage insurance company is a qualified insurer with both GSEs. Private mortgage insurers may be subject to competition from Fannie Mae and Freddie Mac to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry.

We also compete with structured transactions in the capital markets and with other financial instruments designed to mitigate the risk of mortgage defaults, such as credit default swaps and credit linked notes, with lenders who forego mortgage insurance (self-insure) on loans held in their portfolios, and with mortgage lenders who maintain captive mortgage insurance and reinsurance programs.

Private mortgage insurers must satisfy requirements set by the GSEs to be eligible to insure loans sold to the GSEs, and the GSEs have the ability to implement new eligibility requirements for mortgage insurers. They also have the authority to change the pricing arrangements for purchasing retained-participation mortgages as compared to insured mortgages, increase or reduce required mortgage insurance coverage percentages, and alter or liberalize underwriting standards and pricing terms on low-down-payment mortgages they purchase.

In addition to the GSEs, FHLBs purchase single-family conforming mortgage loans. Although not required to do so, the FHLBs currently use mortgage insurance on substantially all mortgage loans with a loan-to-value ratio above 80%.

Corporate and Other

Our Corporate and Other activities include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions, the results of non-core businesses that are managed outside our operating segments and our group life and health insurance business, which we sold in May 2007 and was accounted for as discontinued operations.

Discontinued Operations

On May 31, 2007, we completed the sale of our group life and health insurance business for gross cash proceeds of approximately \$660 million. Accordingly, the business was accounted for as discontinued operations and its results of operations, financial position and cash flows were separately reported for all periods presented. The sale resulted in a gain on sale of discontinued operations of \$51 million, net of taxes.

Table of Contents

International Operations

Information regarding our international operations is presented in note 22 to the consolidated financial statements under Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Marketing

We promote and differentiate our products and services through breadth of offerings, technology services, specialized support for our distributors and innovative marketing programs tailored to particular consumer groups.

We offer a range of products that meets the needs of consumers throughout the various stages of their lives. We are selective in the products we offer and strive to maintain appropriate return and risk thresholds when we expand the scope of our product offerings. We believe our reputation for innovation and our selective breadth of products enable us to sustain strong relationships with our distributors and position us to benefit from the current trend among distributors to reduce the number of insurers with whom they maintain relationships. We also have developed sophisticated technological tools that enhance performance by automating key processes and reducing response times and process variations. These tools also make it easier for our customers and distributors to do business with us.

We have focused our marketing approach on promoting our brand to key constituencies, including sales intermediaries, employees, investors and consumers. These programs include advertising on television and in trade and business periodicals that are likely to reach those demographic groups. We also seek to build recognition of our brand and maintain strong relationships with leading distributors by providing a high level of specialized and differentiated distribution support, such as product training, advanced marketing and sales solutions, financial product design for affluent customers and technology solutions that support the distributors' sales efforts and by pursuing joint business improvement efforts. In addition, we sponsor various advisory councils with independent sales intermediaries and dedicated sales specialists to gather their feedback on industry trends, new product suggestions and ways to enhance our relationships.

We also have been actively marketing our products and services to U.S. Latino customers, who we believe are substantially underserved by insurance and investment products, despite being the largest minority group in the U.S. As part of this campaign, we support Hispanic-focused distribution, translate various marketing materials into Spanish, advertise our services on Spanish language media and participate in Latin American cultural events. We operate a Spanish-language website devoted to financial education for U.S. Latinos. In addition, we introduced our new emerging market web-based mortgage platform, TuCasaAhora.com, which was designed to help Latinos become homeowners. The product combines bilingual education, discounts and incentives to support Latino first time homeownership.

Risk Management

Risk management is a critical part of our business, and we have adopted an enterprise risk management framework that includes rigorous risk management processes in virtually every aspect of our operations, including product development and management, business acquisitions, underwriting, investment management, asset-liability management and technology development projects. The risk management framework includes the assessment of risk, a proactive decision process to determine which risks are acceptable and the ongoing monitoring and management of those risks. The primary objective of these risk management processes is to reduce the variations we experience from our expected results. We have an experienced group of professionals, including actuaries, statisticians and other specialists, dedicated exclusively to our risk management process. We have emphasized our adherence to rigorous risk management techniques and leveraged the benefits into a competitive advantage in distribution and management of our products.

New product introductions

Our risk management process begins with the development and introduction of new products and services. We have established a rigorous product development process that specifies a series of required analyses, reviews

Table of Contents

and approvals for any new product. For each proposed project, this process includes a review of the market opportunity and competitive landscape, major pricing assumptions and methodologies, return expectations, reinsurance strategies, underwriting criteria and business risks and potential mitigating factors. Before we introduce a new product, we establish a monitoring program with specific performance targets and leading indicators, which we monitor frequently to identify any deviations from expected performance so that we can take prompt corrective action when necessary. Significant product introductions require approval by our senior management team. We use a similarly rigorous process to introduce variations to existing products and to offer existing products in new markets and through new distribution channels.

New business acquisitions

When we consider an acquisition of a new block or book of business, we use our extensive risk management process to evaluate the new business opportunity and assess its strategic fit with our current business model. We have a rigorous review process that includes a series of required analyses, reviews and approvals similar to those employed for new product introductions.

Product performance reviews

Product performance reviews are performed by senior operating management and by our Capital and Risk Committee on a regular cycle. Our Capital and Risk Committee includes our Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Investment Officer, Chief Actuary and our General Counsel. These reviews include an analysis of the major drivers of profitability, underwriting performance, variations from expected results, regulatory and competitive environment and other factors affecting product performance. In addition, we initiate special reviews when a product's performance fails to meet any of the indicators we established during that product's introductory review process. If a product does not meet our performance criteria, we consider adjustments in pricing, design and marketing or ultimately discontinuing sales of that product. In addition, in our U.S. and international mortgage insurance businesses, we also review the profitability of lender accounts to assess whether our business with these lenders is achieving anticipated performance levels and to identify trends requiring remedial action, including changes to underwriting guidelines, product mix or other customer performance. We review our underwriting, pricing and risk selection strategies on a regular basis to ensure that our products remain progressive, competitive and consistent with our marketing and profitability objectives. We are also subject to periodic external audits by our reinsurers, which provide us with valuable insights into other innovative risk management practices.

Asset-liability management

We maintain segmented investment portfolios for the majority of our product lines. This enables us to perform an ongoing analysis of the interest rate risks associated with each major product line, in addition to the interest rate risk for our overall enterprise. We analyze the behavior of our liability cash flows across a wide variety of future interest rate scenarios, reflecting policy features and expected policyholder behavior. We also analyze the behavior of our asset portfolios across the same scenarios. We believe this analysis shows the sensitivity of both our assets and liabilities to large and small changes in interest rates and enables us to manage our assets and liabilities more effectively.

Portfolio diversification

We use limits to ensure a spread of risk in our business. We have strict limitations on credit risk to avoid concentration in our investment portfolio. Our product portfolios have considerable diversification due to the wide variety of products we have sold over a number of years. We also manage unique product exposures in our business segments. For example, in managing our mortgage insurance risk exposure, we carefully monitor geographic concentrations in our portfolio and the condition of housing markets in each country in which we operate. We monitor our concentration of risk in-force at the regional, state and major metropolitan area levels on

Table of Contents

a quarterly basis. In the U.S., we evaluate the condition of housing markets in major metropolitan areas with our proprietary OmniMarket model, which rates housing markets based on variables such as economic activity, unemployment, mortgage delinquencies, home sales trends and home price changes. We also regularly monitor factors that affect home prices and their affordability by region and major metropolitan area.

Actuarial databases and information systems

Our extensive actuarial databases and innovative information systems technology are important tools in our risk management programs. We believe we have the largest actuarial database for long-term care insurance claims with over 30 years of experience in offering those products. We also have substantial experience in offering individual life insurance products, and we have developed a large database of claims experience, particularly in preferred risk classes, which provides significant predictive experience for mortality.

We use advanced and, in some cases, proprietary technology to manage variations in our underwriting process. For example, our GENIUS® new business processing system uses digital underwriting technology that has increased the speed, consistency and accuracy of our underwriting process by reducing decision-making variation. In our mortgage insurance business, we use borrower credit scores, our proprietary mortgage scoring model, OmniScore®, and/or our extensive database of mortgage insurance experience along with external data including rating agency data to evaluate new products and portfolio performance. In the U.S. and Canada, OmniScore® uses the borrower's credit score and additional data concerning the borrower, the loan and the property, including loan-to-value ratio, loan type, loan amount, property type, occupancy status and borrower employment to predict the likelihood of having to pay a claim. In the U.S., OmniScore® also incorporates our assessment of the housing market in which a property is located, as evaluated with our OmniMarket model. We believe this additional mortgage data and housing market assessment significantly enhances OmniScore®'s predictive power over the life of the loan. We perform portfolio analysis on an ongoing basis to determine if modifications are required to our product offerings, underwriting guidelines or premium rates.

Compliance

Legal and regulatory compliance are critical parts of our business and we are recognized in the insurance industry for our excellence in these areas. In recognition of our commitment, we have twice received the American Council of Life Insurers' Integrity First Award for our compliance programs. Throughout Genworth, we instill a strong commitment to integrity and ethics in business dealings and compliance with applicable laws and regulations. In addition, we are an Insurance Marketplace Standards Association qualified company. We have approximately 200 professionals dedicated to legal and compliance matters.

Operations and Technology

Service and support

We have a dedicated team of approximately 3,800 service and support personnel, supplemented by a service and support staff of approximately 1,700 personnel through an arrangement with an outsourcing provider in India, Genpact, who assist our sales intermediaries and customers with their service needs. We use advanced and, in some cases, proprietary, patent-pending technology to provide product design and underwriting, and we operate service centers that leverage technology, integrated processes and process management techniques.

In our Retirement and Protection segment, we interact directly and cost-effectively with our independent sales intermediaries and dedicated sales specialists through secure websites that have enabled them to transact business with us electronically, obtain information about our products, submit applications, check application and account status and view commission information. We also provide our independent sales intermediaries and dedicated sales specialists with account information to disseminate to their customers through the use of industry-standard communications.

We also introduced technologically advanced services to customers in our International and U.S. Mortgage Insurance segments. Advances in technology enable us to accept applications through electronic submission and

Table of Contents

to issue electronic insurance commitments and certificates to varying degrees across the jurisdictions in which we do business. Through our internet-enabled information systems, lenders can receive information about their loans in our database, as well as make corrections, file notices and claims, report settlement amounts, verify loan information and access payment histories. In the U.S., we also assist in workouts through what we believe is the mortgage insurance industry's first on-line workout approval system, allowing lenders to request and obtain authorization from us for them to provide workout solutions to their borrowers. For the years ended December 31, 2007, 2006 and 2005, we issued approximately 92%, 88% and 86%, respectively, of our U.S. mortgage insurance commitments electronically.

Operating centers

We have centralized most of our operations and have established scalable, low-cost operating centers in Virginia, North Carolina and Ireland. In addition, through an arrangement with an outsourcing provider, we have a substantial team of professionals in India who provide a variety of services to us, including customer service, transaction processing, and functional support including finance, investment research, actuarial, risk and marketing resources to our insurance operations.

Technology capabilities and process improvement

We rely on proprietary processes for project approval, execution, risk management and benefit verification as part of our approach to technology investment. We have been issued 27 patents and have filed more than 50 pending patent applications. Our technology team is experienced in large-scale project delivery, including many insurance administration system consolidations and the development of Internet-based servicing capabilities. We continually manage technology costs by standardizing our technology infrastructure, consolidating application systems, reducing servers and storage devices and managing project execution risks.

We believe we have greatly enhanced our operating efficiency, generated significant cost savings and created competitive advantages by using a variety of process tools designed to address all aspects of process management. Our tools enable us to more effectively operate processes, improve our process performance and build new processes. Our team of operational quality experts is focused on driving our process and project execution and championing process management disciplines. We tailor the application of our tools to the specific needs of each project or process resulting in more effective execution.

Reserves

We calculate and maintain reserves for estimated future benefit payments to our policyholders and contractholders in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and industry accounting practices. We release these reserves as those future obligations are extinguished. The reserves we establish reflect estimates and actuarial assumptions with regard to our future experience. These estimates and actuarial assumptions involve the exercise of significant judgment that is subjected to a variety of internal and external independent reviews. Our future financial results depend significantly upon the extent to which our actual future experience is consistent with the assumptions we have used in pricing our products and determining our reserves. Many factors can affect future experience, including economic and social conditions, inflation, healthcare costs and changes in doctrines of legal liability and damage awards in litigation. Therefore, we cannot determine with complete precision the ultimate amounts we will pay for actual future benefits or the timing of those payments.

Reinsurance

We follow the industry practice of reinsuring portions of our insurance risks with reinsurance companies. We use reinsurance both to diversify our risks and to manage loss exposures and capital effectively. The use of reinsurance permits us to write policies in amounts larger than the risk we are willing to retain, and also to write a larger volume of new business.

Table of Contents

We cede insurance primarily on a treaty basis, under which risks are ceded to a reinsurer on specific blocks of business where the underlying risks meet certain predetermined criteria. To a lesser extent, we cede insurance risks on a facultative basis, under which the reinsurer's prior approval is required on each risk reinsured. Use of reinsurance does not discharge us, as the insurer, from liability on the insurance ceded. We, as the insurer, are required to pay the full amount of our insurance obligations even in circumstances where we are entitled or able to receive payments from our reinsurer. The principal reinsurers to which we cede risks have A.M. Best financial strength ratings ranging from A+ to A-, with one reinsurer not rated but whose reinsurance recoverable balance is fully collateralized. Historically, we have not had significant concentrations of reinsurance risk with any one reinsurer. However, prior to the completion of the IPO, we entered into reinsurance transactions with Union Fidelity Life Insurance Company (UFLIC), an affiliate of our former parent, which resulted in a significant concentration of reinsurance risk with UFLIC, whose obligations to us are secured by trust accounts as described in note 10 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.

The following table sets forth our exposure to our principal reinsurers, including reinsurance recoverable as of December 31, 2007 and the A.M. Best ratings of those reinsurers as of that date:

(Amounts in millions)	Reinsurance recoverable	A.M. Best rating
UFLIC (1)	\$ 14,685	A-
Riversource Life Insurance Company (2)	713	A+
Munich American Reassurance Company	234	A+
Swiss Re Life & Health America Inc.	163	A+
Employers Reassurance Corporation	92	A-
General Reinsurance Corporation	70	A++
Scor Global Life Reinsurance (3)	66	Not Rated

- (1) Prior to our IPO, we entered into several significant reinsurance transactions with UFLIC ceding in-force blocks of structured settlements, substantially all of our in-force blocks of variable annuities and a block of long-term care insurance policies that we reinsured in 2000 from MetLife Insurance Company of Connecticut, formerly known as The Travelers Insurance Company. See note 10 in our consolidated financial statements under Item 8 Financial Statements and Supplementary Data.
- (2) Our reinsurance arrangement with Riversource Life Insurance Company, formerly known as IDS Life Insurance Company, covers a runoff block of single-premium life insurance policies.
- (3) Scor Global Life Reinsurance, formerly known as Revios Reinsurance International, is not a formally rated company. However, the reinsurance recoverable balance is fully collateralized on a funds withheld basis.

We also participate in reinsurance programs in which we share portions of our U.S. mortgage insurance risk written on loans originated or purchased by lenders with captive reinsurance companies affiliated with these lenders. In return, we cede to the captive reinsurers an agreed portion of our gross premiums on flow insurance written. New insurance written through the bulk channel generally is not subject to these arrangements. See Item 1 Business U.S. Mortgage Insurance for additional information regarding reinsurance captives.

Financial Strength Ratings

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

Table of Contents

Our principal life insurance subsidiaries are rated by A.M. Best, S&P, Moody's and Fitch as follows:

Company	A.M. Best rating	S&P rating	Moody's rating	Fitch rating
Genworth Life Insurance Company	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
Genworth Life Insurance Company (Short-term rating)	Not rated	A-1+ (Strong)	P-1 (Superior)	Not Rated
Genworth Life and Annuity Insurance Company	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
Genworth Life and Annuity Insurance Company (Short-term rating)	Not rated	A-1+ (Extremely Strong)	P-1 (Superior)	Not Rated
Genworth Life Insurance Company of New York	A+ (Superior)	AA- (Very Strong)	Aa3 (Excellent)	AA- (Very Strong)
Continental Life Insurance Company of Brentwood, Tennessee	A (Excellent)	Not rated	Not rated	Not rated

Our mortgage insurance subsidiaries are rated by S&P, Moody's, Fitch and DBRS as follows:

Company	S&P rating	Moody's rating	Fitch rating	DBRS
Genworth Mortgage Insurance Corporation	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)	Not rated
Genworth Residential Mortgage Insurance Corporation of North Carolina	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)	Not rated
Genworth Financial Mortgage Insurance Pty. Ltd	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)	Not rated
Genworth Financial Mortgage Insurance Limited	AA (Very Strong)	Aa2 (Excellent)	AA (Very Strong)	Not rated
Genworth Financial Mortgage Insurance Company Canada	AA (Very Strong)	Not rated	Not rated	AA (Superior)
Genworth Financial Assurance Corporation	Not rated	Aa2 (Excellent)	AA (Very Strong)	Not rated
Genworth Seguros de Credito a la Vivienda S.A. de C.V.	mxAAA	Aaa.mx	AAA (mex)	Not rated

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

Table of Contents

A.M. Best states that its A+ (Superior) rating is assigned to those companies that have a superior ability to meet their ongoing obligations to policyholders. The A+ (Superior) rating is the second-highest of 15 ratings assigned by A.M. Best, which range from A++ to F.

S&P states that an insurer rated AA (Very Strong) has very strong financial security characteristics and is highly likely to have the ability to meet financial commitments. The AA range is the second-highest of the four ratings ranges that meet these criteria, and also is the second-highest of nine financial strength rating ranges assigned by S&P, which range from AAA to R. A plus (+) or minus (-) shows relative standing in a rating category. Accordingly, the AA and AA- ratings are the third- and fourth-highest of S&P's 21 ratings categories. The short-term A-1 rating is the highest rating and shows the capacity to meet financial commitments on short-term policy obligations is strong. Within this category, the designation of a plus sign (+) indicates capacity to meet its financial commitment on short-term policy obligations is extremely strong. An obligor rated mxAAA has a very strong capacity to meet its financial commitments relative to that of other Mexican obligors. The mxAAA rating is the highest enterprise credit rating assigned on S&P's CaVal national scale.

On February 13, 2008, S&P, as part of a broad reassessment of the U.S. mortgage insurance industry, affirmed the AA (Very Strong) ratings of our principal mortgage insurance subsidiaries and, at the same time, changed the rating outlook from stable to negative. The outlook for our life insurance subsidiaries and Genworth Seguros de Credito a la Vivienda S.A. de C.V. remains stable. According to S&P, a rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, S&P gives consideration to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action. Negative means that a rating may be lowered.

Moody's states that insurance companies rated Aa (Excellent) offer excellent financial security. Moody's states that companies in this group constitute what are generally known as high-grade companies. The Aa range is the second-highest of nine financial strength rating ranges assigned by Moody's, which range from Aaa to C. Numeric modifiers are used to refer to the ranking within the group, with 1 being the highest and 3 being the lowest. Accordingly, the Aa2 and Aa3 ratings are the third- and fourth-highest of Moody's 21 ratings categories. Short-term rating P-1 is the highest rating and shows superior ability for repayment of senior note short-term policyholder claims and obligations. Issuers or issues rated Aaa.mx demonstrate the strongest creditworthiness relative to other issuers in Mexico.

On January 31, 2008, Moody's, as part of a broad reassessment of the U.S. mortgage insurance industry, affirmed the Aa2 (Excellent) ratings of our principal mortgage insurance subsidiaries and, at the same time, changed the rating outlook from stable to negative. The outlook for our life insurance subsidiaries and Genworth Seguros de Credito a la Vivienda S.A. de C.V. remains stable. According to Moody's, a rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term.

Fitch states that AA (Very Strong) rated insurance companies are viewed as possessing very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small. The AA rating category is the second-highest of eight financial strength rating categories, which range from AAA to C. The symbol (+) or (-) may be appended to a rating to indicate the relative position of a credit within a rating category. These suffixes are not added to ratings in the AAA category or to ratings below the CCC category. Accordingly, the AA and AA- ratings are the third- and fourth-highest of Fitch's 21 ratings categories. The AAA(mex) rating denotes the highest rating assigned within the scale for Mexico. The rating is assigned to the policyholder obligations of the best insurance entities relative to all other issuers or issues in Mexico, across all industries and obligation types.

Table of Contents

DBRS states that long-term obligations rated AA is of superior credit quality. Given the extremely restrictive definition DBRS has for the AAA category, entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

A.M. Best, S&P, Moody's, Fitch and DBRS review their ratings periodically and we cannot assure you that we will maintain our current ratings in the future. Other agencies may also rate our company or our insurance subsidiaries on a solicited or an unsolicited basis.

Investments

As of December 31, 2007, we had total cash, cash equivalents and invested assets of \$73.9 billion. We manage our assets to meet diversification, credit quality, yield and liquidity requirements of our policy and contract liabilities by investing primarily in fixed maturity securities, including government, municipal and corporate bonds, mortgage-backed and other asset-backed securities and mortgage loans on commercial real estate. We also invest in equity securities and other invested assets, including short-term investments, trading securities and limited partnerships. In all cases, investments for our particular insurance company subsidiaries are required to comply with restrictions imposed by applicable laws and insurance regulatory authorities.

The following table sets forth our cash, cash equivalents and invested assets as of the dates indicated:

(Amounts in millions)	December 31,			
	2007		2006	
	Carrying value	% of total	Carrying value	% of total
Fixed-maturities, available-for-sale:				
Public	\$ 39,896	54%	\$ 39,553	56%
Private	15,258	21	15,131	21
Commercial mortgage loans	8,953	12	8,357	12
Other invested assets	4,676	6	3,846	6
Policy loans	1,651	2	1,489	2
Equity securities, available-for-sale	366	1	197	
Cash and cash equivalents	3,091	4	2,436	3
Total cash, cash equivalents and invested assets	\$ 73,891	100%	\$ 71,009	100%

For a discussion of our investments, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Consolidated Balance Sheets.

Our primary investment objective is to meet our obligations to policyholders and contractholders while increasing value to our stockholders by investing in a diversified high quality portfolio, income producing securities and other assets. Our investment strategy focuses primarily on:

mitigating interest rate risk through management of asset durations relative to policyholder and contractholder obligations;

selecting assets based on fundamental, research-driven strategies;

emphasizing fixed-income, low-volatility assets while pursuing active strategies to enhance yield;

maintaining sufficient liquidity to meet unexpected financial obligations;

regularly evaluating our asset class mix and pursuing additional investment classes; and

continuously monitoring asset quality.

Table of Contents

Looking forward, we expect to see opportunities in alternative asset classes if current market conditions continue. With a goal of enhancing risk-adjusted returns, we expect to gradually become more active in seeking to capitalize on these opportunities in our investment portfolio.

We are exposed to two primary sources of investment risk:

credit risk, relating to the uncertainty associated with the continued ability of a given issuer to make timely payments of principal and interest; and

interest rate risk, relating to the market price and cash flow variability associated with changes in market interest rates.

We manage credit risk by analyzing issuers, transaction structures and any associated collateral. We use sophisticated analytic techniques to monitor credit risk. For example, we continually measure the probability of credit default and estimated loss in the event of such a default, which provides us with early notification of worsening credits. We also manage credit risk through industry and issuer diversification and asset allocation practices. For commercial mortgage loans, we manage credit risk through geographic, property type and product type diversification and asset allocation.

We mitigate interest rate risk through rigorous management of the relationship between the duration of our assets and the duration of our liabilities, seeking to minimize risk of loss in both rising and falling interest rate environments. For further information on our management of interest rate risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk.

Organization

Our investment department, which is comprised of more than 160 individuals, includes portfolio management, risk management, finance and accounting functions. Under the direction of the Investment Committee, it is responsible for establishing investment policies and strategies, reviewing asset liability management and performing asset allocation.

We use both internal and external asset managers to take advantage of specific areas of expertise in particular asset classes or to leverage country-specific investing capabilities. We manage certain asset classes for our domestic insurance operations, including commercial mortgage loans, privately placed debt securities and derivatives. GEAM provides investment management services for significant portions of our U.S. and Bermudan investment portfolios pursuant to investment management and services agreements and investment guidelines approved by the boards of directors of our insurance subsidiaries. Over time we expect other external managers to manage a greater percentage of our externally managed assets, with GEAM managing a lesser share than it does currently.

Management of investments for our international operations is overseen by the managing director and boards of directors of the applicable non-U.S. legal entities in consultation with our Chief Investment Officer. The majority of the assets of our payment protection insurance and European, Canadian, Australian and New Zealand mortgage insurance businesses are managed by unaffiliated investment managers located in their respective countries. As of December 31, 2007 and 2006, approximately 12% and 10% of our invested assets, respectively, were held by our international businesses and were invested primarily in non-U.S.-denominated securities.

Fixed maturity securities

Fixed maturity securities, which were primarily classified as available-for-sale, including tax-exempt bonds, consist principally of publicly traded and privately placed debt securities, and represented 75% and 77% of total cash, cash equivalents and invested assets as of December 31, 2007 and 2006, respectively.

Table of Contents

We invest in privately placed fixed maturity securities to increase diversification and obtain higher yields than can ordinarily be obtained with comparable public market securities. Generally, private placements provide us with protective covenants, call protection features and, where applicable, a higher level of collateral. However, our private placements are generally not freely transferable because of restrictions imposed by federal and state securities laws, the terms of the securities and illiquid trading markets.

The Securities Valuation Office of the National Association of Insurance Commissioners (NAIC) evaluates bond investments of U.S. insurers for regulatory reporting purposes and assigns securities to one of six investment categories called NAIC designations. The NAIC designations parallel the credit ratings of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC designations 1 and 2 include bonds considered investment grade (rated Baa3 or higher by Moody's, or rated BBB- or higher by S&P) by such rating organizations. NAIC designations 3 through 6 include bonds considered below investment grade (rated Ba1 or lower by Moody's, or rated BB+ or lower by S&P).

The following tables present our public, private and aggregate fixed maturity securities by NAIC and/or equivalent ratings of the Nationally Recognized Statistical Rating Organizations, as well as the percentage, based upon estimated fair value, that each designation comprises. Our non-U.S. fixed maturity securities generally are not rated by the NAIC and are shown based upon their equivalent rating of the Nationally Recognized Statistical Rating Organizations. Similarly, certain privately placed fixed maturity securities that are not rated by the Nationally Recognized Statistical Rating Organizations are shown based upon their NAIC designation. Certain securities, primarily non-U.S. securities, are not rated by the NAIC or the Nationally Recognized Statistical Rating Organizations and are so designated.

Public fixed maturity securities NAIC		December 31,					
		2007			2006		
rating	Rating agency equivalent designation	Amortized cost	Estimated fair value	% of total	Amortized cost	Estimated fair value	% of total
1	Aaa/Aa/A	\$ 31,716	\$ 31,312	79%	\$ 29,701	\$ 30,041	76%
2	Baa	6,817	6,791	17	7,395	7,496	19
3	Ba	1,218	1,210	3	1,288	1,320	3
4	B	536	530	1	604	611	2
5	Caa and lower	50	47		76	76	
6	In or near default	6	6		8	9	
	Not rated						
Total public fixed maturity securities		\$ 40,343	\$ 39,896	100%	\$ 39,072	\$ 39,553	100%

Private fixed maturity securities NAIC		December 31,					
		2007			2006		
Rating	Rating agency equivalent designation	Amortized cost	Estimated fair value	% of total	Amortized cost	Estimated fair value	% of total
1	Aaa/Aa/A	\$ 9,249	\$ 8,897	58%	\$ 8,850	\$ 8,897	59%
2	Baa	5,568	5,449	36	5,427	5,493	36
3	Ba	808	789	5	566	579	4
4	B	88	78	1	127	132	1
5	Caa and lower	27	26		5	5	
6	In or near default	5	5		6	7	
	Not rated	14	14		18	18	
Total private fixed maturity securities		\$ 15,759	\$ 15,258	100%	\$ 14,999	\$ 15,131	100%

Table of Contents

Total fixed maturity securities NAIC		December 31,					
		2007			2006		
rating	Rating agency equivalent designation	Amortized cost	Estimated fair value	% of total	Amortized cost	Estimated fair value	% of total
(Amounts in millions)							
1	Aaa/Aa/A	\$ 40,965	\$ 40,209	73%	\$ 38,551	\$ 38,938	71%
2	Baa	12,385	12,240	22	12,822	12,989	24
3	Ba	2,026	1,999	4	1,854	1,899	4
4	B	624	608	1	731	743	1
5	Caa and lower	77	73		81	81	
6	In or near default	11	11		14	16	
	Not rated	14	14		18	18	
Total fixed maturity securities		\$ 56,102	\$ 55,154	100%	\$ 54,071	\$ 54,684	100%

Based upon estimated fair value, public fixed maturity securities represented 72% of total fixed maturity securities as of December 31, 2007 and 2006. Private fixed maturity securities represented 28% of total fixed maturity securities as of December 31, 2007 and 2006.

We diversify our fixed maturity securities by security sector. Our investments in mortgage-backed securities include securities collateralized by sub-prime and Alt-A loans. Sub-prime loans are loans considered alternative credit as broadly determined by a combination of FICO score, loan-to-value ratio and other collateral data. Alt-A loans are loans considered alternative or low documentation. The following table sets forth the estimated fair value of our fixed maturity securities by sector as well as the percentage of the total fixed maturity securities holdings that each security sector comprised as of the dates indicated:

(Amounts in millions)	December 31,			
	2007		2006	
	Estimated fair value	% of total	Estimated fair value	% of total
U.S. government, agencies and government sponsored entities	\$ 594	1%	\$ 864	2%
Tax exempt	2,228	4	2,231	4
Government non-U.S.	2,432	4	1,765	3
U.S. corporate	23,563	43	24,656	45
Corporate non-U.S.	12,579	23	10,632	19
Mortgage-backed (1)	8,525	15	9,212	17
Asset-backed (1)	5,233	10	5,324	10
Total fixed maturity securities	\$ 55,154	100%	\$ 54,684	100%

(1) We had \$4,902 million of residential mortgage-backed securities included in mortgage-backed and asset-backed securities, of which \$1,479 million were investment grade securities collateralized by sub-prime residential mortgage loans and \$1,447 million were investment grade securities collateralized by Alt-A residential mortgage loans as of December 31, 2007.

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Table of Contents

The following table sets forth the major industry types that comprise our corporate bond holdings, based primarily on industry codes established by Lehman Brothers, Inc., as well as the percentage of the total corporate bond holdings that each industry comprised as of the dates indicated:

	2007		December 31, 2006	
	Estimated fair value	% of total	Estimated fair value	% of total
(Amounts in millions)				
Finance and insurance	\$ 12,475	34%	\$ 12,461	35%
Utilities and energy	6,360	18	6,238	18
Consumer non cyclical	4,177	11	4,136	12
Technology and communications	2,377	7	2,469	7
Consumer cyclical	2,211	6	2,497	7
Capital goods	1,953	5	2,115	6
Industrial	1,740	5	1,762	5
Transportation	1,296	4	1,230	3
Other	3,553	10	2,380	7
Total	\$ 36,142	100%	\$ 35,288	100%

We diversify our corporate bond holdings by industry and issuer. The portfolio does not have significant exposure to any single issuer. As of December 31, 2007, our combined corporate bond holdings in the ten issuers to which we had the greatest exposure was \$2.8 billion, which was approximately 4% of our total cash, cash equivalents and invested assets. The exposure to the largest single issuer of corporate bonds held as of December 31, 2007 was \$352 million, which was less than 1% of our total cash, cash equivalents and invested assets.

We do not have material unhedged exposure to foreign currency risk in our invested assets of our U.S. operations. In our international insurance operations, both our assets and liabilities are generally denominated in local currencies.

Commercial mortgage loans and other invested assets

Our mortgage loans are collateralized by commercial properties, including multifamily residential buildings. Commercial mortgage loans are primarily stated at principal amounts outstanding, net of deferred expenses and allowance for loan loss. As of December 31, 2007, we had \$125 million of commercial mortgage loans that were held-for-sale and were stated at the lower of cost or market.

We diversify our commercial