GENWORTH FINANCIAL INC
Form 10-Q
May 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from __________ to __________

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(804) 281-6000

(Registrant s Telephone Number, Including Area Code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 27, 2017, 498,948,884 shares of Class A Common Stock, par value $0.001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except per share amounts)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 60,597	$ 60,572
Equity securities available-for-sale, at fair value	709	632
Commercial mortgage loans	6,107	6,111
Restricted commercial mortgage loans related to securitization entities	122	129
Policy loans	1,761	1,742
Other invested assets	2,272	2,071
Restricted other invested assets related to securitization entities, at fair value	84	312
Total investments	71,652	71,569
Cash and cash equivalents	3,018	2,784
Accrued investment income	717	659
Deferred acquisition costs	3,207	3,571
Intangible assets and goodwill	381	348
Reinsurance recoverable	17,681	17,755
Other assets	703	673
Separate account assets	7,327	7,299
Total assets	$ 104,686	$ 104,658
Liabilities and equity		
Liabilities:		
Future policy benefits	$ 37,291	$ 37,063
Policyholder account balances	25,383	25,662
Liability for policy and contract claims	9,295	9,256
Unearned premiums	3,370	3,378
Other liabilities ($3 and $1 of other liabilities are related to securitization entities)	2,657	2,916
Borrowings related to securitization entities ($13 and $12 are carried at fair value)	68	74
Non-recourse funding obligations	310	310

Long-term borrowings	4,194	4,180
Deferred tax liability	75	53
Separate account liabilities	7,327	7,299
Total liabilities	89,970	90,191
Commitments and contingencies		
Equity:		
Class A common stock, $0.001 par value; 1.5 billion shares authorized; 587 million shares issued as of March 31, 2017 and December 31, 2016; 499 million and 498 million shares outstanding as of March 31, 2017 and December 31, 2016, respectively	1	1
Additional paid-in capital	11,964	11,962
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	1,233	1,253
Net unrealized gains (losses) on other-than-temporarily impaired securities	10	9
Net unrealized investment gains (losses)	1,243	1,262
Derivatives qualifying as hedges	2,036	2,085
Foreign currency translation and other adjustments	(183)	(253)
Total accumulated other comprehensive income (loss)	3,096	3,094
Retained earnings	451	287
Treasury stock, at cost (88 million shares as of March 31, 2017 and December 31, 2016)	(2,700)	(2,700)
Total Genworth Financial, Inc. s stockholders equity	12,812	12,644
Noncontrolling interests	1,904	1,823
Total equity	14,716	14,467
Total liabilities and equity	$ 104,686	$ 104,658

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues:		
Premiums	$ 1,136	$ 794
Net investment income	790	789
Net investment gains (losses)	34	(19)
Policy fees and other income	211	221
Total revenues	2,171	1,785
Benefits and expenses:		
Benefits and other changes in policy reserves	1,246	860
Interest credited	167	177
Acquisition and operating expenses, net of deferrals	270	394
Amortization of deferred acquisition costs and intangibles	94	99
Interest expense	62	105
Total benefits and expenses	1,839	1,635
Income from continuing operations before income taxes	332	150
Provision for income taxes	116	23
Income from continuing operations	216	127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc. s common stockholders	$ 155	$ 53
Income from continuing operations available to Genworth Financial, Inc. s common stockholders per share:		
Basic	$ 0.31	$ 0.14
Diluted	$ 0.31	$ 0.14
Net income available to Genworth Financial, Inc. s common stockholders per share:		

Basic	$ 0.31	$ 0.11
Diluted	$ 0.31	$ 0.11
Weighted-average common shares outstanding:		
Basic	498.6	498.0
Diluted	501.0	499.4
Supplemental disclosures:		
Total other-than-temporary impairments	$ (1)	$ (11)
Portion of other-than-temporary impairments included in other comprehensive income (loss)		
Net other-than-temporary impairments	(1)	(11)
Other investments gains (losses)	35	(8)
Total net investment gains (losses)	$ 34	$ (19)

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2017	2016
Net income	$ 216	$ 108
Other comprehensive income (loss), net of taxes:		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	(12)	807
Net unrealized gains (losses) on other-than-temporarily impaired securities	1	(4)
Derivatives qualifying as hedges	(49)	257
Foreign currency translation and other adjustments	119	216
Total other comprehensive income	59	1,276
Total comprehensive income	275	1,384
Less: comprehensive income attributable to noncontrolling interests	118	156
Total comprehensive income available to Genworth Financial, Inc.'s common stockholders	$ 157	$ 1,228

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total Genworth Financial, Inc.'s stockholders' equity	Noncontrolling interests	Total equity
Balances as of December 31, 2016	$ 1	$ 11,962	$ 3,094	$ 287	$ (2,700)	$ 12,644	$ 1,823	$ 14,467
Cumulative effect of change in accounting, net of taxes				9		9		9
Comprehensive income:								
Net income				155		155	61	216
Other comprehensive income, net of taxes			2			2	57	59
Total comprehensive income						157	118	275
Dividends to noncontrolling interests							(39)	(39)
Stock-based compensation expense and exercises and other		2				2	2	4
Balances as of March 31, 2017	$ 1	$ 11,964	$ 3,096	$ 451	$ (2,700)	$ 12,812	$ 1,904	$ 14,716
Balances as of December 31, 2015	$ 1	$ 11,949	$ 3,010	$ 564	$ (2,700)	$ 12,824	$ 1,813	$ 14,637
Comprehensive income:								
Net income				53		53	55	108
Other comprehensive income, net of taxes			1,175			1,175	101	1,276
Total comprehensive income						1,228	156	1,384
Dividends to noncontrolling interests							(52)	(52)

Stock-based compensation expense and exercises and other		3				3	1	4
Balances as of March 31, 2016	$ 1	$ 11,952	$ 4,185	$ 617	$ (2,700)	$ 14,055	$ 1,918	$ 15,973

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Three months ended March 31, 2017	2016
Cash flows from operating activities:		
Net income	$ 216	$ 108
Less loss from discontinued operations, net of taxes		19
Adjustments to reconcile net income to net cash from operating activities:		
Gain on sale of business		(20)
Amortization of fixed maturity securities discounts and premiums and limited partnerships	(33)	(38)
Net investment (gains) losses	(34)	19
Charges assessed to policyholders	(183)	(191)
Acquisition costs deferred	(22)	(50)
Amortization of deferred acquisition costs and intangibles	94	99
Deferred income taxes	93	7
Trading securities, held-for-sale investments and derivative instruments	365	21
Stock-based compensation expense	10	7
Change in certain assets and liabilities:		
Accrued investment income and other assets	(79)	(159)
Insurance reserves	377	36
Current tax liabilities	(37)	(8)
Other liabilities, policy and contract claims and other policy-related balances	(112)	406
Net cash from operating activities	655	256
Cash flows used by investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	1,060	840
Commercial mortgage loans	166	192
Restricted commercial mortgage loans related to securitization entities	6	6
Proceeds from sales of investments:		
Fixed maturity and equity securities	2,173	905
Purchases and originations of investments:		
Fixed maturity and equity securities	(2,710)	(2,042)
Commercial mortgage loans	(161)	(200)
Other invested assets, net	(676)	34
Policy loans, net		10

Net cash used by investing activities	(142)	(255)
Cash flows used by financing activities:		
Deposits to universal life and investment contracts	218	571
Withdrawals from universal life and investment contracts	(467)	(517)
Redemption of non-recourse funding obligations		(1,620)
Repayment and repurchase of long-term debt		(326)
Repayment of borrowings related to securitization entities	(7)	(10)
Dividends paid to noncontrolling interests	(39)	(52)
Other, net	(9)	13
Net cash used by financing activities	(304)	(1,941)
Effect of exchange rate changes on cash and cash equivalents	25	31
Net change in cash and cash equivalents	234	(1,909)
Cash and cash equivalents at beginning of period	2,784	5,993
Cash and cash equivalents at end of period	3,018	4,084
Less cash and cash equivalents held for sale at end of period		41
Cash and cash equivalents of continuing operations at end of period	$ 3,018	$ 4,043

See Notes to Condensed Consolidated Financial Statements

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

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

On October 21, 2016, Genworth Financial entered into an agreement and plan of merger (the Merger Agreement) with Asia Pacific Global Capital Co., Ltd. (the Parent), a limited liability company incorporated in the People s Republic of China, and Asia Pacific Global Capital USA Corporation (Merger Sub), a Delaware corporation and an indirect, wholly-owned subsidiary of the Parent. Subject to the terms and conditions of the Merger Agreement, including the satisfaction or waiver of certain conditions, Merger Sub would merge with and into Genworth Financial with Genworth Financial surviving the merger as an indirect, wholly-owned subsidiary of the Parent. The Parent is a newly formed subsidiary of China Oceanwide Holdings Group Co., Ltd. (together with its affiliates, China Oceanwide). China Oceanwide has agreed to acquire all of our outstanding common stock for a total transaction value of approximately $2.7 billion, or $5.43 per share in cash. At a special meeting held on March 7, 2017, Genworth s stockholders voted on and approved a proposal to adopt the Merger Agreement. The transaction remains subject to closing conditions, including the receipt of required regulatory approvals in the U.S., China, and other international jurisdictions. Both parties are engaging with the relevant regulators regarding the applications and the pending transaction. Genworth and China Oceanwide continue to target closing the transaction in the middle of 2017.

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

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

We operate our business through the following five operating segments:

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

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

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Runoff. The Runoff segment includes the results of non-strategic products which have not been actively sold but we continue to service our existing blocks of business. Our non-strategic products primarily include our variable annuity, variable life insurance, institutional, corporate-owned life insurance and other accident and health insurance products. Institutional products consist of: funding agreements, funding agreements backing notes and guaranteed investment contracts.

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2016 Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2017, we adopted new accounting guidance related to the accounting for stock compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. We adopted this new accounting guidance on a modified retrospective basis and recorded a previously disallowed deferred tax asset of $9 million with a corresponding increase to cumulative effect of change in accounting within retained earnings at adoption.

On January 1, 2017, we adopted new accounting guidance related to transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. We did not have any significant impact from this guidance on our consolidated financial statements.

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Accounting Pronouncements Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (the FASB) issued new guidance shortening the amortization period for the premium component of callable debt securities purchased at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. The guidance is currently effective for us on January 1, 2019, with early adoption permitted. We are in process of evaluating the impact the guidance may have on our consolidated financial statements.

In February 2017, the FASB issued new guidance to clarify the accounting for gains and losses from the derecognition of nonfinancial assets and accounting for partial sales of nonfinancial assets. The new guidance clarifies when transferring ownership interests in a consolidated subsidiary holding nonfinancial assets is within scope. It also states that the reporting entity should identify each distinct nonfinancial asset and derecognize when a counterparty obtains control, and clarifies the accounting for partial sales. The new guidance is currently effective for us on January 1, 2018. We do not expect any significant impacts from this guidance on our consolidated financial statements.

In January 2017, the FASB issued new guidance simplifying the test for goodwill impairment. The new guidance states goodwill impairment is equal to the difference between the carrying value and fair value of the reporting unit up to the amount of recorded goodwill. The new guidance is currently effective for us on January 1, 2020, with early adoption permitted for testing dates after January 1, 2017. We do not expect any significant impacts from this new guidance on our consolidated financial statements.

In October 2016, the FASB issued new guidance related to the income tax effects of intra-entity transfers of assets other than inventory. The new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance is currently effective for us on January 1, 2018. We are still in process of evaluating the impact the guidance may have on our consolidated financial statements, including any cumulative effect adjustment that will be recorded directly to retained earnings as of the beginning of the period of adoption.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Earnings Per Share

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

	Three months ended March 31,	
(Amounts in millions, except per share amounts)	**2017**	**2016**
Weighted-average shares used in basic earnings per share calculations	498.6	498.0
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights	2.4	1.4
Weighted-average shares used in diluted earnings per share calculations	501.0	499.4
Income from continuing operations:		
Income from continuing operations	$ 216	$ 127
Less: income from continuing operations attributable to noncontrolling interests	61	55
Income from continuing operations available to Genworth Financial, Inc. s common stockholders	$ 155	$ 72
Basic per share	$ 0.31	$ 0.14
Diluted per share	$ 0.31	$ 0.14
Loss from discontinued operations:		
Loss from discontinued operations, net of taxes	$	$ (19)
Less: income from discontinued operations, net of taxes, attributable to noncontrolling interests		
Loss from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders	$	$ (19)
Basic per share	$	$ (0.04)

Diluted per share	$	$ (0.04)
Net income:		
Income from continuing operations	$ 216	$ 127
Loss from discontinued operations, net of taxes		(19)
Net income	216	108
Less: net income attributable to noncontrolling interests	61	55
Net income available to Genworth Financial, Inc. s common stockholders	$ 155	$ 53
Basic per share	$ 0.31	$ 0.11
Diluted per share	$ 0.31	$ 0.11

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Investments

(a) Net Investment Income

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

	Three months ended March 31,	
(Amounts in millions)	**2017**	**2016**
Fixed maturity securities taxable	$ 641	$ 641
Fixed maturity securities non-taxable	3	3
Commercial mortgage loans	77	81
Restricted commercial mortgage loans related to securitization entities	2	2
Equity securities	8	5
Other invested assets	32	38
Restricted other invested assets related to securitization entities		2
Policy loans	42	35
Cash, cash equivalents and short-term investments	6	5
Gross investment income before expenses and fees	811	812
Expenses and fees	(21)	(23)
Net investment income	$ 790	$ 789

(b) Net Investment Gains (Losses)

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

	Three months ended March 31,	
(Amounts in millions)	**2017**	**2016**
Available-for-sale securities:		
Realized gains	$ 63	$ 16
Realized losses	(34)	(23)

Net realized gains (losses) on available-for-sale securities	29	(7)
Impairments:		
Total other-than-temporary impairments	(1)	(11)
Portion of other-than-temporary impairments included in other comprehensive income		
Net other-than-temporary impairments	(1)	(11)
Trading securities		28
Commercial mortgage loans	1	1
Net gains (losses) related to securitization entities	2	8
Derivative instruments [1]	3	(38)
Net investment gains (losses)	$ 34	$ (19)

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

GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We generally intend to hold securities in unrealized loss positions until they recover. However, from time to time, our intent on an individual security may change, based upon market or other unforeseen developments. In such instances, we sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield and liquidity requirements. If a loss is recognized from a sale subsequent to a balance sheet date due to these unexpected developments, the loss is recognized in the period in which we determined that we have the intent to sell the securities or it is more likely than not that we will be required to sell the securities prior to recovery. The aggregate fair value of securities sold at a loss during the three months ended March 31, 2017 and 2016 was $876 million and $240 million, respectively, which was approximately 96% and 91%, respectively, of book value.

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

(Amounts in millions)	2017	2016
Beginning balance	$ 42	$ 64
Reductions:		
Securities sold, paid down or disposed	(1)	(1)
Ending balance	$ 41	$ 63

(c) Unrealized Investment Gains and Losses

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

(Amounts in millions)	March 31, 2017	December 31, 2016
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities	$ 3,983	$ 3,656
Equity securities	49	12
Subtotal [(1)]	4,032	3,668
Adjustments to deferred acquisition costs, present value of future profits, sales inducements and benefit reserves	(1,994)	(1,611)
Income taxes, net	(703)	(711)

Net unrealized investment gains (losses)		1,335		1,346
Less: net unrealized investment gains (losses) attributable to noncontrolling interests		92		84
Net unrealized investment gains (losses) attributable to Genworth Financial, Inc.	$	1,243	$	1,262

(1) Excludes foreign exchange.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Amounts in millions)	**2017**	**2016**
Beginning balance	$ 1,262	$ 1,254
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	392	1,596
Adjustment to deferred acquisition costs	(305)	(142)
Adjustment to present value of future profits	(5)	(34)
Adjustment to sales inducements	(5)	(19)
Adjustment to benefit reserves	(68)	(174)
Provision for income taxes	(2)	(436)
Change in unrealized gains (losses) on investment securities	7	791
Reclassification adjustments to net investment (gains) losses, net of taxes of $10 and $(6)	(18)	12
Change in net unrealized investment gains (losses)	(11)	803
Less: change in net unrealized investment gains (losses) attributable to noncontrolling interests	8	
Ending balance	$ 1,243	$ 2,057

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(d) Fixed Maturity and Equity Securities

As of March 31, 2017, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

(Amounts in millions)	Amortized cost or cost	Gross unrealized gains: Not other-than-temporarily impaired	Gross unrealized gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 4,837	$ 681	$	$ (25)	$	$ 5,493
State and political subdivisions	2,565	191		(46)		2,710
Non-U.S. government	1,722	106		(11)		1,817
U.S. corporate:						
Utilities	4,215	456		(36)		4,635
Energy	2,192	166		(19)		2,339
Finance and insurance	5,882	465		(31)		6,316
Consumer non-cyclical	4,380	441		(28)		4,793
Technology and communications	2,520	150		(27)		2,643
Industrial	1,223	86		(9)		1,300
Capital goods	2,085	236		(12)		2,309
Consumer cyclical	1,480	96		(14)		1,562
Transportation	1,105	86		(14)		1,177
Other	331	19		(1)		349
Total U.S. corporate	25,413	2,201		(191)		27,423
Non-U.S. corporate:						
Utilities	985	44		(9)		1,020
Energy	1,281	122		(8)		1,395
Finance and insurance	2,445	151		(7)		2,589
Consumer non-cyclical	701	20		(9)		712
Technology and communications	968	50		(6)		1,012
Industrial	924	56		(4)		976
Capital goods	563	25		(3)		585
Consumer cyclical	451	11		(1)		461

Transportation	632	67		(6)		693
Other	2,600	187		(6)		2,781
Total non-U.S. corporate	11,550	733		(59)		12,224
Residential mortgage-backed	4,139	264	12	(11)		4,404
Commercial mortgage-backed	3,250	97	4	(49)		3,302
Other asset-backed	3,231	15	1	(23)		3,224
Total fixed maturity securities	56,707	4,288	17	(415)		60,597
Equity securities	667	55		(13)		709
Total available-for-sale securities	$ 57,374	$ 4,343	$ 17	$ (428)	$	$ 61,306

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

		Gross unrealized gains		Gross unrealized losses		
(Amounts in millions)	**Amortized cost or cost**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Not other-than-temporarily impaired**	**Other-than-temporarily impaired**	**Fair value**
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	$ 5,439	$ 647	$	$ (50)	$	$ 6,036
State and political subdivisions	2,515	182		(50)		2,647
Non-U.S. government	2,024	101		(18)		2,107
U.S. corporate:						
Utilities	4,137	454		(41)		4,550
Energy	2,167	157		(24)		2,300
Finance and insurance	5,719	424		(46)		6,097
Consumer non-cyclical	4,335	433		(34)		4,734
Technology and communications	2,473	157		(32)		2,598
Industrial	1,161	76		(14)		1,223
Capital goods	2,043	228		(13)		2,258
Consumer cyclical	1,455	92		(17)		1,530
Transportation	1,121	86		(17)		1,190
Other	332	17		(1)		348
Total U.S. corporate	24,943	2,124		(239)		26,828
Non-U.S. corporate:						
Utilities	940	40		(11)		969
Energy	1,234	109		(12)		1,331
Finance and insurance	2,413	134		(9)		2,538
Consumer non-cyclical	711	17		(14)		714
Technology and communications	953	44		(10)		987
Industrial	928	39		(9)		958
Capital goods	518	21		(4)		535
Consumer cyclical	434	10		(2)		442
Transportation	619	65		(7)		677
Other	2,967	190		(13)		3,144

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2017:

	Less than 12 months			12 months or more			Total		
(Dollar amounts in millions)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	$ 861	$ (25)	41	$	$		$ 861	$ (25)	41
State and political subdivisions	564	(28)	96	142	(18)	12	706	(46)	108
Non-U.S. government	345	(11)	35				345	(11)	35
U.S. corporate	4,601	(155)	630	509	(36)	68	5,110	(191)	698
Non-U.S. corporate	1,493	(41)	221	298	(18)	41	1,791	(59)	262
Residential mortgage-backed	675	(10)	104	56	(1)	31	731	(11)	135
Commercial mortgage-backed	1,067	(48)	153	16	(1)	7	1,083	(49)	160
Other asset-backed	847	(6)	150	344	(17)	67	1,191	(23)	217
Subtotal, fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
Equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864
% Below cost fixed maturity securities:									
<20% Below cost	$ 10,453	$ (324)	1,430	$ 1,325	$ (78)	220	$ 11,778	$ (402)	1,650
20%-50% Below cost				40	(13)	6	40	(13)	6
Total fixed maturity securities	10,453	(324)	1,430	1,365	(91)	226	11,818	(415)	1,656
% Below cost equity securities:									
<20% Below cost	83	(4)	151	105	(8)	48	188	(12)	199
20%-50% Below cost	3	(1)	9				3	(1)	9

Total equity securities	86	(5)	160	105	(8)	48	191	(13)	208
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864
Investment grade	$ 10,163	$ (318)	1,390	$ 1,172	$ (79)	216	$ 11,335	$ (397)	1,606
Below investment grade	376	(11)	200	298	(20)	58	674	(31)	258
Total for securities in an unrealized loss position	$ 10,539	$ (329)	1,590	$ 1,470	$ (99)	274	$ 12,009	$ (428)	1,864

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the gross unrealized losses and fair values of our corporate securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, based on industry, as of March 31, 2017:

(Dollar amounts in millions)	Less than 12 months Fair value	Less than 12 months Gross unrealized losses	Less than 12 months Number of securities	12 months or more Fair value	12 months or more Gross unrealized losses	12 months or more Number of securities	Total Fair value	Total Gross unrealized losses	Total Number of securities
Description of Securities									
U.S. corporate:									
Utilities	$ 784	$ (35)	118	$ 21	$ (1)	4	$ 805	$ (36)	122
Energy	253	(5)	37	204	(14)	25	457	(19)	62
Finance and insurance	1,140	(25)	151	99	(6)	14	1,239	(31)	165
Consumer non-cyclical	825	(28)	105				825	(28)	105
Technology and communications	450	(19)	62	89	(8)	13	539	(27)	75
Industrial	181	(5)	27	46	(4)	5	227	(9)	32
Capital goods	321	(11)	48	6	(1)	1	327	(12)	49
Consumer cyclical	335	(12)	43	31	(2)	5	366	(14)	48
Transportation	295	(14)	37	13		1	308	(14)	38
Other	17	(1)	2				17	(1)	2
Subtotal, U.S. corporate securities	4,601	(155)	630	509	(36)	68	5,110	(191)	698
Non-U.S. corporate:									
Utilities	232	(8)	23	14	(1)	1	246	(9)	24
Energy	84	(2)	17	83	(6)	14	167	(8)	31
Finance and insurance	265	(5)	44	27	(2)	7	292	(7)	51
Consumer non-cyclical	238	(9)	24				238	(9)	24
Technology and communications	197	(5)	27	18	(1)	1	215	(6)	28
Industrial	91	(2)	12	46	(2)	6	137	(4)	18
Capital goods	66	(1)	10	28	(2)	2	94	(3)	12
Consumer cyclical	60	(1)	14				60	(1)	14
Transportation	95	(5)	15	25	(1)	2	120	(6)	17
Other	165	(3)	35	57	(3)	8	222	(6)	43
Subtotal, non-U.S. corporate securities	1,493	(41)	221	298	(18)	41	1,791	(59)	262

Total for corporate securities in an unrealized loss position	$ 6,094	$ (196)	851	$ 807	$ (54)	109	$ 6,901	$ (250)	960

As indicated in the tables above, the majority of the securities in a continuous unrealized loss position for less than 12 months were investment grade and less than 20% below cost. These unrealized losses were primarily attributable to increased market volatility, mostly concentrated in our corporate securities. For securities that have been in a continuous unrealized loss position for less than 12 months, the average fair value percentage below cost was approximately 3% as of March 31, 2017.

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Of the $78 million of unrealized losses on fixed maturity securities in a continuous unrealized loss for 12 months or more that were less than 20% below cost, the weighted-average rating was BBB and approximately 77% of the unrealized losses were related to investment grade securities as of March 31, 2017. These unrealized losses were predominantly attributable to corporate securities including variable rate securities purchased in a higher rate and lower spread environment. The average fair value percentage below cost for these securities was approximately 5% as of March 31, 2017. See below for additional discussion related to fixed maturity securities that have been in a continuous unrealized loss position for 12 months or more with a fair value that was more than 20% below cost.

The following tables present the concentration of gross unrealized losses and fair values of fixed maturity securities that were more than 20% below cost and in a continuous unrealized loss position for 12 months or more by asset class as of March 31, 2017:

	Investment Grade							
	20% to 50%				Greater than 50%			
(Dollar amounts in millions)	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	% of total gross unrealized losses	Number of securities
Fixed maturity securities:								
State and political subdivisions	$ 9	$ (3)	1%	1	$	$	%	
Structured securities:								
Other asset-backed	29	(9)	2	4				
Total structured securities	29	(9)	2	4				
Total	$ 38	$ (12)	3%	5	$	$	%	

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

Fixed maturity securities:									
Non-U.S. government	$	2	$	(1)	%	1	$	$	%
Total	$	2	$	(1)	%	1	$	$	%

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

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GENWORTH FINANCIAL, INC.

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(Unaudited)

Structured Securities

Of the $9 million of unrealized losses related to structured securities that have been in an unrealized loss position for 12 months or more and were more than 20% below cost, none related to other-than-temporarily impaired securities where the unrealized losses represented the portion of the other-than-temporary impairment recognized in OCI. The extent and duration of the unrealized loss position on our structured securities was primarily due to credit spreads that have widened since acquisition. Additionally, the fair value of certain structured securities has been impacted from high risk premiums being incorporated into the valuation as a result of the amount of potential losses that may be absorbed by the security in the event of additional deterioration in the U.S. economy.

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

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

Based on this evaluation, the present value of expected cash flows was greater than or equal to the amortized cost for each security. Accordingly, we determined that the unrealized losses on each of our structured securities represented temporary impairments as of March 31, 2017.

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

State and political subdivisions

As indicated above, $3 million of gross unrealized losses were related to a state and political subdivisions fixed maturity security that has been in a continuous loss position for more than 12 months and was greater than 20% below cost. The unrealized loss for this security was 24% below cost, primarily related to widening of credit spreads since acquisition as a result of higher risk premiums being attributed to this security from uncertainty related to special revenues supporting this type of obligation as well as certain securities having longer duration that may be viewed as less desirable in the current market place. Additionally, the fair value of this security class has been negatively impacted as a result of having certain bond insurers associated with the security. In our analysis of impairment for this security, we expect to recover our amortized cost from the cash flows of the underlying security before any guarantee support. However, the existence of these guarantees may negatively impact the value of the debt security in certain instances. We performed an analysis of this security and the underlying activities that are expected to support the cash flows and determined we expect to recover our amortized cost.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Dollar amounts in millions)	Less than 12 months Fair value	Gross unrealized losses	Number of securities	12 months or more Fair value	Gross unrealized losses	Number of securities	Total Fair value	Gross unrealized losses	Number of securities
Description of Securities									
U.S. corporate:									
Utilities	$ 855	$ (39)	130	$ 21	$ (2)	5	$ 876	$ (41)	135
Energy	190	(5)	30	276	(19)	38	466	(24)	68
Finance and insurance	1,438	(38)	177	113	(8)	15	1,551	(46)	192
Consumer non-cyclical	921	(34)	117				921	(34)	117
Technology and communications	507	(22)	70	126	(10)	17	633	(32)	87
Industrial	226	(7)	38	77	(7)	10	303	(14)	48
Capital goods	322	(12)	50	6	(1)	1	328	(13)	51
Consumer cyclical	431	(16)	56	26	(1)	6	457	(17)	62
Transportation	302	(16)	41	17	(1)	2	319	(17)	43
Other	29	(1)	2				29	(1)	2
Subtotal, U.S. corporate securities	5,221	(190)	711	662	(49)	94	5,883	(239)	805
Non-U.S. corporate:									
Utilities	240	(10)	32	14	(1)	1	254	(11)	33
Energy	105	(3)	18	91	(9)	16	196	(12)	34
Finance and insurance	474	(8)	79	71	(1)	16	545	(9)	95
Consumer non-cyclical	308	(14)	30				308	(14)	30
Technology and communications	232	(9)	34	28	(1)	2	260	(10)	36
Industrial	165	(5)	21	91	(4)	10	256	(9)	31
Capital goods	104	(2)	14	28	(2)	2	132	(4)	16
Consumer cyclical	90	(2)	17				90	(2)	17
Transportation	106	(5)	16	25	(2)	2	131	(7)	18
Other	433	(8)	69	60	(5)	8	493	(13)	77
Subtotal, non-U.S. corporate securities	2,257	(66)	330	408	(25)	57	2,665	(91)	387

Total for corporate securities in an unrealized loss position	$ 7,478	$ (256)	1,041	$ 1,070	$ (74)	151	$ 8,548	$ (330)	1,192

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GENWORTH FINANCIAL, INC.

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(Unaudited)

The scheduled maturity distribution of fixed maturity securities as of March 31, 2017 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in millions)	Amortized cost or cost	Fair value
Due one year or less	$ 1,755	$ 1,776
Due after one year through five years	10,322	10,764
Due after five years through ten years	11,969	12,386
Due after ten years	22,041	24,741
Subtotal	46,087	49,667
Residential mortgage-backed	4,139	4,404
Commercial mortgage-backed	3,250	3,302
Other asset-backed	3,231	3,224
Total	$ 56,707	$ 60,597

As of March 31, 2017, $10,978 million of our investments (excluding mortgage-backed and asset-backed securities) were subject to certain call provisions.

As of March 31, 2017, securities issued by finance and insurance, utilities and consumer non-cyclical industry groups represented approximately 23%, 14% and 14%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of March 31, 2017, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of stockholders equity.

(e) Commercial Mortgage Loans

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

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(Unaudited)

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

	March 31, 2017		December 31, 2016	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Property type:				
Retail	$ 2,181	36%	$ 2,178	36%
Industrial	1,531	25	1,533	25
Office	1,423	23	1,430	23
Apartments	462	8	455	7
Mixed use	237	4	245	4
Other	287	4	284	5
Subtotal	6,121	100%	6,125	100%
Unamortized balance of loan origination fees and costs	(3)		(2)	
Allowance for losses	(11)		(12)	
Total	$ 6,107		$ 6,111	

	March 31, 2017		December 31, 2016	
(Amounts in millions)	**Carrying value**	**% of total**	**Carrying value**	**% of total**
Geographic region:				
South Atlantic	$ 1,592	26%	$ 1,546	25%
Pacific	1,547	25	1,567	27
Middle Atlantic	895	15	915	15
Mountain	543	9	554	9
West North Central	426	7	435	7
East North Central	390	6	388	6
West South Central	319	5	311	5
East South Central	205	4	206	3
New England	204	3	203	3

Subtotal	6,121	100%	6,125	100%
Unamortized balance of loan origination fees and costs	(3)		(2)	
Allowance for losses	(11)		(12)	
Total	$ 6,107		$ 6,111	

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

	March 31, 2017					
(Amounts in millions)	31 - 60 days past due	61 - 90 days past due	Greater than 90 days past due	Total past due	Current	Total
Property type:						
Retail	$	$	$	$	$ 2,181	$ 2,181
Industrial					1,531	1,531
Office					1,423	1,423
Apartments					462	462
Mixed use					237	237
Other					287	287
Total recorded investment	$	$	$	$	$ 6,121	$ 6,121
% of total commercial mortgage loans	%	%	%	%	100%	100%

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

As of March 31, 2017 and December 31, 2016, we had no commercial mortgage loans that were past due for more than 90 days and still accruing interest. We also did not have any commercial mortgage loans that were past due for less than 90 days on non-accrual status as of March 31, 2017 and December 31, 2016.

We evaluate the impairment of commercial mortgage loans on an individual loan basis. As of March 31, 2017, we have no commercial mortgage loans past due and have no loans that are individually impaired.

During the three months ended March 31, 2017 and the year ended December 31, 2016, we modified or extended 2 and 16 commercial mortgage loans, respectively, with a total carrying value of $2 million and $85 million, respectively. All of these modifications or extensions were based on current market interest rates, did not result in any forgiveness in the outstanding principal amount owed by the borrower, except during the year ended December 31, 2016, one loan with a carrying value of $1 million at the time of modification was considered a troubled debt restructuring. This loan was sold in the fourth quarter of 2016.

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

(Amounts in millions)	Three months ended March 31, 2017	Three months ended March 31, 2016
Allowance for credit losses:		
Beginning balance	$ 12	$ 15
Charge-offs		
Recoveries		
Provision	(1)	
Ending balance	$ 11	$ 15
Ending allowance for individually impaired loans	$	$
Ending allowance for loans not individually impaired that were evaluated collectively for impairment	$ 11	$ 15
Recorded investment:		
Ending balance	$ 6,121	$ 6,196
Ending balance of individually impaired loans	$	$ 19
Ending balance of loans not individually impaired that were evaluated collectively for impairment	$ 6,121	$ 6,177

As of March 31, 2017, we had no individually impaired commercial mortgage loans. As of March 31, 2016, we had two individually impaired commercial mortgage loans. One loan was included within the office property type with a recorded investment of $5 million, an unpaid principal balance of $6 million and charge-offs of $1 million. The other loan was included within the industrial property type with a recorded investment of $14 million, an unpaid principal balance of $15 million and charge-offs of $1 million. As of December 31, 2016, we had one individually impaired loan within the industrial property type with a recorded investment of $12 million, an unpaid principal balance of $15 million and charge-offs of $3 million.

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

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the borrower s liquidity or access to other resources that may result in our expectation that the borrower will continue to make the future scheduled payments.

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

	March 31, 2017					
(Amounts in millions)	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100%	Total
Property type:						
Retail	$ 722	$ 530	$ 918	$ 11	$	$ 2,181
Industrial	607	428	494	2		1,531
Office	429	312	653	29		1,423
Apartments	189	91	177	5		462
Mixed use	64	86	87			237
Other	62	15	210			287
Total recorded investment	$ 2,073	$ 1,462	$ 2,539	$ 47	$	$ 6,121
% of total	34%	24%	41%	1%	%	100%
Weighted-average debt service coverage ratio	2.21	1.88	1.61	0.89		1.87

	December 31, 2016					
(Amounts in millions)	0% - 50%	51% - 60%	61% - 75%	76% - 100%	Greater than 100% (1)	Total
Property type:						
Retail	$ 743	$ 511	$ 913	$ 11	$	$ 2,178
Industrial	605	430	484	14		1,533
Office	431	310	656	26	7	1,430
Apartments	188	89	173	5		455
Mixed use	67	87	91			245
Other	60	30	194			284
Total recorded investment	$ 2,094	$ 1,457	$ 2,511	$ 56	$ 7	$ 6,125

% of total	34%	24%	41%	1%	%	100%
Weighted-average debt service coverage ratio	2.20	1.88	1.61	0.80	(0.07)	1.87

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

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

	March 31, 2017					
(Amounts in millions)	Less than 1.00	1.00 - 1.25	1.26 - 1.50	1.51 - 2.00	Greater than 2.00	Total
Property type:						
Retail	$ 61	$ 198	$ 433	$ 915	$ 574	$ 2,181
Industrial	52	109	237	635	498	1,531
Office	84	115	175	610	439	1,423
Apartments	19	21	44	226	152	462
Mixed use	2	6	19	127	83	237
Other	1	147	54	65	20	287
Total recorded investment	$ 219	$ 596	$ 962	$ 2,578	$ 1,766	$ 6,121
% of total	4%	10%	16%	41%	29%	100%
Weighted-average loan-to-value	59%	60%	59%	58%	45%	55%

	December 31, 2016					
(Amounts in millions)	Less than 1.00	1.00 - 1.25	1.26 - 1.50	1.51 - 2.00	Greater than 2.00	Total
Property type:						
Retail	$ 67	$ 204	$ 425	$ 899	$ 583	$ 2,178
Industrial	71	113	236	599	514	1,533
Office	91	117	172	609	441	1,430
Apartments	19	22	44	217	153	455
Mixed use	2	9	19	128	87	245
Other	1	148	60	55	20	284
Total recorded investment	$ 251	$ 613	$ 956	$ 2,507	$ 1,798	$ 6,125
% of total	4%	10%	16%	41%	29%	100%
Weighted-average loan-to-value	61%	60%	59%	58%	45%	55%

As of March 31, 2017 and December 31, 2016, we did not have any floating rate commercial mortgage loans.

(f) Restricted Commercial Mortgage Loans Related To Securitization Entities

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

(g) Restricted Other Invested Assets Related To Securitization Entities

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

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(h) Limited Partnerships or Similar Entities

Investments in partnerships or similar entities are generally considered VIEs when the equity group lacks sufficient financial control. Generally, these investments are limited partner or non-managing member equity investments in a widely held fund that is sponsored and managed by a reputable asset manager. We are not the primary beneficiary of any VIE investment in a limited partnership or similar entity. As of March 31, 2017 and December 31, 2016, the total carrying value of these investments was $188 million and $178 million, respectively. Our maximum exposure to loss is equal to the outstanding carrying value and future funding commitments. We have not contributed, and do not plan to contribute, any additional financial or other support outside of what is contractually obligated.

(5) Derivative Instruments

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

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

	Derivative assets			Derivative liabilities		
		Fair value			Fair value	
(Amounts in millions)	**Balance sheet classification**	**March 31, 2017**	**December 31, 2016**	**Balance sheet classification**	**March 31, 2017**	**December 31, 2016**
Derivatives designated as hedges						
Cash flow hedges:						
Interest rate swaps	Other invested assets	$ 227	$ 237	Other liabilities	$ 241	$ 203
Foreign currency swaps	Other invested assets	4	4	Other liabilities		
Total cash flow hedges		231	241		241	203
Total derivatives designated as hedges		231	241		241	203
Derivatives not designated as hedges						
Interest rate swaps	Other invested assets	338	359	Other liabilities	132	146
Foreign currency swaps	Other invested assets	1		Other liabilities	3	5
Credit default swaps related to securitization entities	Restricted other invested assets			Other liabilities	1	1
Equity index options	Other invested assets	77	72	Other liabilities		
Financial futures	Other invested assets			Other liabilities		
Equity return swaps	Other invested assets		1	Other liabilities	5	1
Other foreign currency contracts	Other invested assets	28	35	Other liabilities	26	27

GMWB embedded derivatives	Reinsurance recoverable [1]	15	16	Policyholder account balances [2]	275	303
Fixed index annuity embedded derivatives	Other assets			Policyholder account balances [3]	361	344
Indexed universal life embedded derivatives	Reinsurance recoverable			Policyholder account balances [4]	12	11
Total derivatives not designated as hedges		459	483		815	838
Total derivatives		$ 690	$ 724		$ 1,056	$ 1,041

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

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

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

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

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

The activity associated with derivative instruments can generally be measured by the change in notional value over the periods presented. However, for GMWB, fixed index annuity embedded derivatives and indexed

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universal life embedded derivatives, the change between periods is best illustrated by the number of policies. The following tables represent activity associated with derivative instruments as of the dates indicated:

(Notional in millions)	Measurement	December 31, 2016	Additions	Maturities/ terminations	March 31, 2017
Derivatives designated as hedges					
Cash flow hedges:					
Interest rate swaps	Notional	$ 11,570	$	$ (71)	$ 11,499
Foreign currency swaps	Notional	22			22
Total cash flow hedges		11,592		(71)	11,521
Total derivatives designated as hedges		11,592		(71)	11,521
Derivatives not designated as hedges					
Interest rate swaps	Notional	4,679			4,679
Foreign currency swaps	Notional	201	29		230
Credit default swaps	Notional	39			39
Credit default swaps related to securitization entities	Notional	312			312
Equity index options	Notional	2,396	523	(443)	2,476
Financial futures	Notional	1,398	1,509	(1,449)	1,458
Equity return swaps	Notional	165	103	(150)	118
Other foreign currency contracts	Notional	3,130	484	(221)	3,393
Total derivatives not designated as hedges		12,320	2,648	(2,263)	12,705
Total derivatives		$ 23,912	$ 2,648	$ (2,334)	$ 24,226

(Number of policies)	Measurement	December 31, 2016	Additions	Maturities/ terminations	March 31, 2017
Derivatives not designated as hedges					
GMWB embedded derivatives	Policies	33,238		(751)	32,487
Fixed index annuity embedded derivatives	Policies	17,549		(125)	17,424

Indexed universal life embedded derivatives	Policies	1,074	1	(22)	1,053

Cash Flow Hedges

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

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The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended March 31, 2017:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified into net income	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income
Interest rate swaps hedging assets	$ (49)	$ 30	Net investment income	$	Net investment gains (losses)
Interest rate swaps hedging assets		1	Net investment gains (losses)		Net investment gains (losses)
Interest rate swaps hedging liabilities	4		Interest expense		Net investment gains (losses)
Total	$ (45)	$ 31		$	

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

The following table provides information about the pre-tax income effects of cash flow hedges for the three months ended March 31, 2016:

(Amounts in millions)	Gain (loss) recognized in OCI	Gain (loss) reclassified into net income from OCI	Classification of gain (loss) reclassified	Gain (loss) recognized in net income [1]	Classification of gain (loss) recognized in net income

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

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

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

	Three months ended March 31,	
(Amounts in millions)	**2017**	**2016**
Derivatives qualifying as effective accounting hedges as of January 1	$ 2,085	$ 2,045
Current period increases (decreases) in fair value, net of deferred taxes of $16 and $(147)	(29)	275
Reclassification to net (income), net of deferred taxes of $11 and $10	(20)	(18)
Derivatives qualifying as effective accounting hedges as of March 31	$ 2,036	$ 2,302

The total of derivatives designated as cash flow hedges of $2,036 million, net of taxes, recorded in stockholders equity as of March 31, 2017 is expected to be reclassified to net income in the future, concurrently with and primarily offsetting changes in interest expense and interest income on floating rate instruments and interest income on future fixed rate bond purchases. Of this amount, $89 million, net of taxes, is expected to be reclassified to net income in the next 12 months. Actual amounts may vary from this amount as a result of market conditions. All forecasted transactions associated with qualifying cash flow hedges are expected to occur by 2057. During the three months ended March 31, 2017, there was approximately $1 million reclassified to net income in connection with forecasted transactions that were no longer considered probable of occurring.

Fair Value Hedges

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

We did not have any fair value hedges as of March 31, 2017 and 2016.

Derivatives Not Designated As Hedges

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

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derivatives. We also offer fixed index annuity and indexed universal life products and have reinsurance agreements with certain features that are required to be bifurcated as embedded derivatives.

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

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

	Three months ended March 31,		Classification of gain (loss) recognized
(Amounts in millions)	**2017**	**2016**	**in net income**
Interest rate swaps	$ 2	$ 15	Net investment gains (losses)
Interest rate swaps related to securitization entities		(5)	Net investment gains (losses)
Credit default swaps		(1)	Net investment gains (losses)
Credit default swaps related to securitization entities	2	9	Net investment gains (losses)
Equity index options	13	(3)	Net investment gains (losses)
Financial futures	(17)	7	Net investment gains (losses)
Equity return swaps	(8)	2	Net investment gains (losses)
Other foreign currency contracts	(5)	(2)	Net investment gains (losses)
Foreign currency swaps	3	10	Net investment gains (losses)
GMWB embedded derivatives	33	(78)	Net investment gains (losses)
Fixed index annuity embedded derivatives	(20)	3	Net investment gains (losses)
Indexed universal life embedded derivatives	1	2	Net investment gains (losses)
Total derivatives not designated as hedges	$ 4	$ (41)	

Derivative Counterparty Credit Risk

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

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

(Amounts in millions)	March 31, 2017 Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives	December 31, 2016 Derivatives assets (1)	Derivatives liabilities (2)	Net derivatives
Amounts presented in the balance sheet:						
Gross amounts recognized	$ 711	$ 436	$ 275	$ 724	$ 387	$ 337
Gross amounts offset in the balance sheet						
Net amounts presented in the balance sheet	711	436	275	724	387	337
Gross amounts not offset in the balance sheet:						
Financial instruments [3]	(282)	(282)		(172)	(172)	
Collateral received	(348)		(348)	(467)		(467)
Collateral pledged		(428)	428		(557)	557
Over collateralization		274	(274)	1	344	(343)
Net amount	$ 81	$	$ 81	$ 86	$ 2	$ 84

(1) Included $36 million and $16 million of accruals on derivatives classified as other assets and does not include amounts related to embedded derivatives as of March 31, 2017 and December 31, 2016, respectively.

(2) Included $29 million and $5 million of accruals on derivatives classified as other liabilities and does not include amounts related to embedded derivatives and derivatives related to securitization entities as of March 31, 2017 and December 31, 2016, respectively.

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

Except for derivatives related to securitization entities, almost all of our master swap agreements contain credit downgrade provisions that allow either party to assign or terminate derivative transactions if the other party s long-term unsecured debt rating or financial strength rating is below the limit defined in the applicable agreement. If downgrade provisions had been triggered as a result of downgrades of our counterparties, we could have claimed up to $81 million and $86 million as of March 31, 2017 and December 31, 2016, respectively, or have been required to disburse up to $2 million as of December 31, 2016. There were no amounts that we would have been required to disburse as of March 31, 2017. The chart above excludes embedded derivatives and derivatives related to securitization entities as those derivatives are not subject to master netting arrangements.

Credit Derivatives

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

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default swaps. In the event of default for credit default swaps, we are typically required to pay the protection holder the full notional value less a recovery rate determined at auction.

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

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

	March 31, 2017			December 31, 2016		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Investment grade						
Matures in less than one year	$ 19	$	$	$	$	$
Matures after one year through five years	20			39		
Total credit default swaps on single name reference entities	$ 39	$	$	$ 39	$	$

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

	March 31, 2017			December 31, 2016		
(Amounts in millions)	**Notional value**	**Assets**	**Liabilities**	**Notional value**	**Assets**	**Liabilities**
Customized credit default swap index tranches related to securitization entities:						
Portion backing third-party borrowings maturing 2017 (1)	$ 12	$	$	$ 12	$	$
Portion backing our interest maturing 2017 (2)	300		1	300		1

Total customized credit default swap index tranches related to securitization entities	312			1	312			1
Total credit default swaps on index tranches	$ 312	$	$	1	$ 312	$	$	1

(1) Original notional value was $39 million.
(2) Original notional value was $300 million.

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(6) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

The following represents our estimated fair value of financial assets and liabilities that are not required to be carried at fair value as of the dates indicated:

	March 31, 2017					
			Fair value			
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,107	$ 6,288	$ —	$ —	$ 6,288
Restricted commercial mortgage loans	(1)	122	134	—	—	134
Other invested assets	(1)	1,137	1,153	—	1,003	150
Liabilities:						
Long-term borrowings	(1)	4,194	3,684	—	3,531	153
Non-recourse funding obligations	(1)	310	190	—	—	190
Borrowings related to securitization entities	(1)	55	58	—	58	—
Investment contracts	(1)	16,105	16,638	—	5	16,633
Other firm commitments:						
Commitments to fund limited partnerships	$ 241	—	—	—	—	—
Ordinary course of business lending commitments	72	—	—	—	—	—

	December 31, 2016					
			Fair value			
(Amounts in millions)	**Notional amount**	**Carrying amount**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Commercial mortgage loans	$ (1)	$ 6,111	$ 6,247	$ —	$ —	$ 6,247
Restricted commercial mortgage loans	(1)	129	141	—	—	141
Other invested assets	(1)	459	473	—	352	121

Liabilities:						
Long-term borrowings		(1)	4,180	3,582	3,440	142
Non-recourse funding obligations		(1)	310	186		186
Borrowings related to securitization entities		(1)	62	65	65	
Investment contracts		(1)	16,437	16,993	5	16,988
Other firm commitments:						
Commitments to fund limited partnerships	$ 201					
Ordinary course of business lending commitments	73					

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

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Recurring Fair Value Measurements

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

Fixed maturity, equity and trading securities

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

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

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

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

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

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

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

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

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Level 1 measurements

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

Separate account assets

The fair value of separate account assets is based on the quoted prices of the underlying fund investments and, therefore, represents Level 1 pricing.

Level 2 measurements

Fixed maturity securities

Third-party pricing services: In estimating the fair value of fixed maturity securities, approximately 91% of our portfolio is priced using third-party pricing sources. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by third-party pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our third-party pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

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The following table presents a summary of the significant inputs used by our third-party pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of March 31, 2017:

(Amounts in millions)	Fair value		Primary methodologies	Significant inputs
U.S. government, agencies and government-sponsored enterprises	$	5,492	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread ("OAS") to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions	$	2,666	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	$	1,801	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	$	24,253	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine ("TRACE") reports
Non-U.S. corporate	$	10,371	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources

Residential mortgage-backed	$ 4,358	OAS-based models, To Be Announced pricing models, single factor binomial models, internally priced	Prepayment and default assumptions, aggregation of bonds with similar characteristics, including collateral type, vintage, tranche type, weighted-average life, weighted-average loan age, issuer program and delinquency ratio, pay up and pay down factors, TRACE reports
Commercial mortgage-backed	$ 3,243	Multi-dimensional attribute-based modeling systems, pricing matrix, spread matrix priced to swap curves, Trepp commercial mortgage-backed securities analytics model	Credit risk, interest rate risk, prepayment speeds, new issue data, collateral performance, origination year, tranche type, original credit ratings, weighted-average life, cash flows, spreads derived from broker quotes, bid side prices, spreads to daily updated swaps curves, TRACE reports
Other asset-backed	$ 3,049	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models	Spreads to daily updated swaps curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

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Internal models: A portion of our state and political subdivisions, non-U.S. government, U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities were $7 million, $16 million, $729 million and $352 million, respectively, as of March 31, 2017. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

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

Securities lending collateral

The fair value of securities held as collateral is primarily based on Level 2 inputs from market information for the collateral that is held on our behalf by the custodian. We determine fair value after considering prices obtained by third-party pricing services.

Level 3 measurements

Fixed maturity securities

Internal models: A portion of our U.S. government, agencies and government-sponsored enterprises, U.S. corporate, non-U.S. corporate, residential mortgage-backed and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as interest rate yield curve, as well as published credit spreads for similar securities where there are no external ratings of the instrument and include a significant unobservable input. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was $3,561 million as of March 31, 2017.

Broker quotes: A portion of our state and political subdivisions, U.S. corporate, non-U.S. corporate, residential mortgage-backed, commercial mortgage-backed and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by third-party pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was $699 million as of March 31, 2017.

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

Restricted other invested assets related to securitization entities

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

GMWB embedded derivatives

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

For GMWB liabilities, non-performance risk is integrated into the discount rate. Our discount rate used to determine fair value of our GMWB liabilities includes market credit spreads above U.S. Treasury rates to reflect an adjustment for the non-performance risk of the GMWB liabilities. As of March 31, 2017 and December 31, 2016, the impact of non-performance risk resulted in a lower fair value of our GMWB liabilities of $68 million and $73 million, respectively.

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

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

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

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

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

Fixed index annuity embedded derivatives

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

Indexed universal life embedded derivatives

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

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Borrowings related to securitization entities

We record certain borrowings related to securitization entities at fair value. The fair value of these borrowings is determined using either a market approach or income approach, depending on the instrument and availability of market information. Given the unique characteristics of the securitization entities that issued these borrowings as well as the lack of comparable instruments, we determine fair value considering the valuation of the underlying assets held by the securitization entities and any derivatives, as well as any unique characteristics of the borrowings that may impact the valuation. After considering all relevant inputs, we determine fair value of the borrowings using the net valuation of the underlying assets and derivatives that are backing the borrowings. Accordingly, these instruments are classified as Level 3. Increases in the valuation of the underlying assets or decreases in the derivative liabilities will result in an increase in the fair value of these borrowings.

Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	March 31, 2017			
(Amounts in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	$ 5,493	$	$ 5,492	$ 1
State and political subdivisions	2,710		2,673	37
Non-U.S. government	1,817		1,817	
U.S. corporate:				
Utilities	4,635		4,057	578
Energy	2,339		2,177	162
Finance and insurance	6,316		5,498	818
Consumer non-cyclical	4,793		4,671	122
Technology and communications	2,643		2,584	59
Industrial	1,300			